

# OnMobile Global Limited



Second Quarter FY2014  
Earnings Conference Call

October 30, 2013

Speakers: Mr. Tony Haight, Chairman  
Mr. Mouli Raman, Managing Director & CEO  
Mr. Rajesh Kunnath, Global Group CFO  
Mr. Sanjay Bhambri, Chief Commercial  
Officer

**Moderator:**

Good day, ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to the Q2 FY2014 Earnings Conference Call of OnMobile Global Limited. For the duration of the presentation, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. Tony Haight, the Chairman; Mr. Mouli Raman, the Managing Director & CEO; Mr. Rajesh Kunnath, the Global Group CFO; and Mr. Sanjay Bhambri, the Chief Commercial Officer.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. Please be advised that this conference is being recorded today. Now, without any delay, I would like to hand over the proceedings to Mr. Mouli Raman. Thank you, over to you, sir.

**Mouli Raman:**

Hi, good morning everyone. Thanks for joining us this morning. Before starting on the business highlights, one context I would like to provide is that this is the first quarter wherein we have declared the results after the integration of OnMobile Live, which is the erstwhile LiveWire business. So what we will do in this call is talk about the performance excluding LiveWire and the performance of LiveWire. This is both on the business side as well as on the financial side. And we will take it from there.

So to begin with, last quarter was challenging for us. The challenges were primarily because of India wherein we had certain regulatory issues, that you are well aware of. I will touch upon it in more detail later. While we had this challenge, on the positive side, we have seen pretty robust growth outside of India particularly in Latin America, Europe and Africa.

Overall, excluding LiveWire, we grew our revenues quarter on quarter by 9.1%. Of this, international business grew by about 24.8% quarter on quarter. And the international business constituted about 76% of the overall revenues.

To give more details about what is happening in the international market - in Latin America, we continue to see good growth. We have seen a growth of about 8.3% quarter-on-quarter, which is riding on our RBT services with Telefonica, at this point in time.

Coming to Other Emerging Markets - in Africa, we have grown about 14.3% quarter-on-quarter. And the drivers of this growth are primarily two-fold. Number one, for the services that we have already rolled out, which are RBT and Music, we are experiencing good adoption among the consumers in Africa. And number two is the Football service, which we have launched a few months back. It is gaining good traction among the consumers - we have experienced as much as about 4% penetration among the consumers in many of the countries. Besides Africa - in the Middle East - we have also gone live with an operator in Qatar. Qatar is a small country; however, it is one of the highest ARPU markets in the world and we have launched our services here.

Moving on from Other Emerging Markets to Europe, we have grown about 81% quarter on quarter. Definitely, we have seen underlying momentum in the business in Europe. However, to call it out, we have benefited this quarter partly from backlogs that we have recognized as revenue. So, what is the major driver behind the growth in Europe? Number one, we have talked about the Converged VAS - a few quarters back we had gone live with it and we are seeing good momentum for this service among the consumers in Europe. Again, to call it out, we have said that the margin profile for this particular service is going to be different from other services because the content is passing through us. That is about Converged VAS.

Second one, in Spain, we have gone live with RBT with another large operator. With this, we have gone live with three large operators covering about 90% of subscriber base in Spain and we are focusing on making the operations successful. As you know, for one of the operators, we already made good progress on RBT. There are two other operators we have rolled out recently and we are focusing on making this successful. And once we make this successful over the next few quarters, we believe that this will open up other opportunities in Europe in a big way for RBT.

Now, coming to India, as we know the new directives from TRAI had come in July 2013 and they were implemented from July 11<sup>th</sup>. We believed and continue to believe that this is in the long-term interest of the industry. We had also said that there would be a moderate impact on us in the near-term while there will be a larger impact on the industry. Just to add some numbers to it, overall the new activations across the industry have been affected by about 60%. As far as we are concerned, our revenues have been impacted by about 21% quarter on quarter. We have seen stability in September and as of now, we expect the stability to continue. However, we would like to monitor this for two to three months before we can be certain. Obviously, to offset it, we have been taking a lot of actions over a period of time in terms of finding alternate channels. Also we are seeing quite good traction with the operators on consolidating services around a few large players and we are benefiting from that. So, these are some of the measures that we are taking in India to circumvent it.

Now, coming to LiveWire. As you know, the rationale for the LiveWire acquisition was two-fold. One was to get an entry into North American market. The other one was that LiveWire had a good product in Music which we believe will help us in getting new customers for the product worldwide. So I will give a quick update on what is happening on both the fronts. After closing the deal on July 19<sup>th</sup>, we have talked to many customers. We also talked to all the key stakeholders, such as content providers. Based on all these discussions, it is very clear that the opportunities in North America are significant. Further, the operators i.e. many of the existing customers of LiveWire are also very optimistic about the future opportunities. They are also putting money on the table for marketing, going forward.

The Content providers are also significant stakeholders in the whole ecosystem. There are four major players and we have talked to all of them. They know about us from other markets i.e. from the success that we have shown in other markets, particularly, in Latin America where we have contributed significantly to their revenues. They are very bullish on the fact that we are bringing in our products and best practices into North America and they are fully willing to support us in the North American foray. They are willing to support in introducing better

pricing, in terms of creative bundling, marketing etc. So that way, we have met two key stakeholders and we believe that North America is a good market, based on all the discussions subsequent to the business acquisition.

The second one is about the OnMobile Live Music product. We believe that they had a much better product than what we had. We have started pitching that product around the world with various operators and we are seeing pretty good traction. So the basic rationale was around North American foray and music product - both are turning out to be as per our expectations.

We are also making good progress in integrating teams and setting up the right processes. As part of this, we have also brought in some good cost efficiency on people and OpEx fronts in terms of identifying duplication of people and ancillary reasons. We are doing quite well in bringing cost efficiency. There have been some migration delays from old to new systems in some of the existing operators. Because of that and the ongoing integration, there was some impact on revenue last quarter, though the margins have been broadly in line.

So moving on to the next item, we have also announced the appointment of two Non-Executive Independent Directors to our Board. Number one, Mr. Rantala Chandrasekhar, as you know, he was the Secretary of DoT. And now, he is taking over as the Head of NASSCOM, with effect from January. He brings with him tremendous experience in the Telecom and IT industries and we believe that his vast experience will help us in driving the strategy of the Company going forward.

Number two, Mr. Barry White has also joined us as an Independent Director. He is an eminent lawyer and a thought leader in the legal space. In 2009, the President of United States appointed him as Ambassador to Norway. He brings with him tremendous worldwide experience. We believe that his inclusion in the Board will help us in our international growth.

Next one, Sanjay Bhambri, who is also on the call today. We have appointed him as the Chief Commercial Officer i.e. Head of all customer-facing units. He will be responsible for all the revenues

of the Company. He has been associated with us for the last six years and has played an integral role in our overseas foray. With his past experience, we believe that him taking over as Chief Commercial Officer will reinforce our international growth. So with that, I will handover to Rajesh to take us through the financials.

**Rajesh Kunnath:**

Thank you, Mouli and good morning everybody. We will have to note that published numbers for the quarter and the first half of FY2014 are not comparable as the current quarter includes OLI financials from July 19, 2013. When I say OLI, I am referring to the erstwhile LiveWire business that we acquired. For the benefit of all, I would like to spell out the OLI numbers that have been consolidated this quarter. Revenue is Rs. 181 million, EBITDA is negative Rs. 24 million and Net Loss is Rs. 85 million. As indicated in our previous interactions on OLI, we expect EBITDA burn to be in the region of USD 0.5 million for another two quarters, after which revenue momentum, which Mouli has already touched upon, is expected to pick up once integration is complete in all respects. The high Net Loss for OLI is on account of amortisation of intangibles consequent to acquisition. That is the resultant goodwill of USD 17.4 million – with a component of software development of USD 5.3 million to be charged off over four years and a charge-off over five years for goodwill of USD 12.1 million.

The proportionate charge taken in Q2 is Rs. 47 million. Charge for the quarter would be Rs. 58 million at current USD rates. Why I said proportionate charges is because the numbers are being consolidated only from July 19. This non-cash charge will continue at the same rate for the next few years until the whole amount is written-off. Hence, depreciation and amortisation will be higher going forward. To clarify, we were not required to charge-off the goodwill on acquisition of Vox and Telisma in France as we had acquired legal entities and not specific assets and liabilities, as in the case of OLI. The goodwill in these cases is only on consolidation.

Coming to financials excluding OLI, while revenues grew year on year and sequentially, EBITDA margins declined primarily due to change in revenue mix and one-time content reversals to the tune

of Rs. 50 million in the Q1 FY2014 consequent to closure of final agreements and reconciliations with key content providers.

Before getting into further details, I need to clarify that Forex gains on restatement of Balance Sheet items get recorded under Other Income, while Forex losses get reported under Operating Expenses. For the current year, the Company had Forex gains in the first two quarters of Rs. 99 million in Q1 and Rs. 89 million in Q2, whereas it had a Forex loss to the tune of Rs. 68 million in the same quarter last year. This tends to distort comparative performance. Keeping this in mind, we have shown EBITDA for Q2 of last year after Forex exclusion in Slide #7 of the presentation that we sent yesterday. Normalised, year-on-year EBITDA decline is higher primarily on account of one-time acquisition-related expenses to the tune of Rs. 32 million and Forex impact of restatement of Manpower Cost of Rs. 76 million. Here, the Forex impact is primarily the restatement of USD and Euro payroll cost in the consolidated financials at higher rates. There is no cash outflow on this account. Hence, normalised EBITDA after excluding benefit of restatement in the corresponding revenues for the quarter would have been 25%.

Net Profit grew year-on-year on account of the Forex gains that accrued in the current quarter. It was lower than the previous quarter on account of the higher one-time impact of Manpower Cost restatement explained above.

H1 margins are at 24% after excluding the one-time expenses that I just spoke of. With regards to Manpower Cost for H1, our total spend was Rs. 1,583 million as against Rs. 1,506 million in the previous year, an increase of 5%, which is primarily on account of the restatement that I just explained.

Underlying Manpower Cost remained flat despite increments in Q1 of this year on account of the rationalisation efforts initiated last year. Net Cash declined from Rs. 1,518 million as of March 2013 to Rs. 254 million as of September 2013; that is a decrease of Rs. 1,264 million i.e. Rs. 126 crores. This was due to acquisition financing of Rs. 1,050 million i.e. approximately USD 17 million and dividend of Rs. 200 million that was paid out in the quarter.

Cash generated from operations in H1 post-tax was Rs. 140 million. It's primary utilisation was towards Capital Expenditure of Rs. 117 million. Cash generated from operations was below normal trends as Working Capital increased in the last two months of H1 due to higher Trade Receivables. There have been three specific areas of concern which have been subsequently addressed. There were delays with payment with one Indian operator, one in Spain and a couple of operators in Africa to the tune of Rs. 54 crores. A major part of the unbilled receivables was converted to billed in the last quarter. About 40% of the delayed payments that I just spoke of, have come in during October as we speak. So we are confident that Trade Receivables will be pruned in this quarter.

Coming to ETR - i.e. the Effective Tax Rate, slide #12 of the presentation that we've sent, attempts to clarify the underlying ETR, after excluding Forex adjustments and OLI loss. As far as the Balance Sheet is concerned - while we have already explained the Net Cash movement - I am addressing variance in specific items. Long-term Borrowing of Rs. 602 million is the long-term component of the total loan of Rs. 800 million i.e. USD 12.9 million taken for the OLI acquisition. The Short-term component of Rs. 198 million is classified under Short-term Borrowings. Short-term Borrowings increased by Rs. 662 million, out of which Rs. 464 million pertains to Net Working Capital loans availed during the quarter, with the balance being the short-term component of the OLI loan.

We expect Working Capital to be pruned down in the quarter as Trade Receivables reduce. The increase in Fixed Assets is primarily on account of the unamortized component of Intangibles on OLI, which is explained above. Long-term Loans and Advances increased by Rs. 200 million primarily on account of the withholding tax on foreign subsidiaries. Short-term Loans and Advances increased by Rs. 180 million primarily on account of the indirect tax credits in Spain and Mexico, which will get adjusted as and when final tax dues are filed. The decrease in Other Current Assets was due to the resolution of old unbilled receivables that I touched upon. So with that, I open up for questions.



**Moderator:**

Thank you, sir. With this, we will open the floor for our Q&A interactive session. At this time, if you wish to ask any question, you may please press "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you wish to ask any question, you may please press "0" "1".

So the first question of the day is coming from Mr. Sanjay Parekh and he is from Reliance Mutual Fund.

**Sanjay Parekh:**

Yes, good morning friends. It's clearly very good work done on international front and I wish that goes well. Regarding my questions, one part is particularly addressed to Mr. Haight and we have been asking this for six quarters now that what corporate action do you think you are going to do on improving the shareholders' value in terms of buyback. This was requested earlier also and we were told that we are considering it but it's almost now six quarters that we have been asking for it. So we need some timelines on when do you plan to realign the capital structure. As I have been talking earlier also that if we don't act right now, then that actually is giving a signal that we don't feel that there is an undervaluation. There is a significant undervaluation. So request you to give the timelines by which you plan to do that and what would be the modalities? Could it be buyback or any other modalities?

Then there are few other questions. Some of them relate to strategy. One is - I have been asking that in our internal metrics, do we use measures like ROCE or Return on Equity in addition to growth as our goal posts for future strategy? This is because our Return on Equity and Return on Capital Employed are really compromised in our acquisition strategy. And you take up any study wherein value creation is done it will only happen if return ratios grow. It cannot happen only by growth. So, profitable growth is very, very important. One of the large investors is a Private Equity investor. So I suppose you would also have similar views. So what do we plan to do and are these the goal posts that we look for?

Third - what our dividend payout policy is over longer term? And this should be a part of profits that we make. This is a dividend payout policy apart from the capital realignment that we do.

Fourth is cash flow generation - and that has been low this half year, that is okay. But over a longer term, do we focus on cash flow creation in terms of capital intensity of the business i.e. the working capital intensity of the business? And clearly if you refer to the cash flows of last 12 to 16 quarters, we are seeing that it is a character of a business and that needs some change. I recommend and request that we have a strategy wherein cash flow generation is monitored and looked to, not profits, because profit actually is an illusion, cash flow is real. So that is my request. And what is your view on that?

Then what is the roadmap for LiveWire in terms of profitability? And apart from revenue and EBIDTA, if we can be more granular in terms of cost structure for LiveWire? These are the questions I have, and then I can take up later.

**Tony Haight:**

With respect to buyback, first, I am favourably inclined to consider this and I am doing so. Second, we have a team exploring the ramifications of doing this at this time. When they complete their work, we will come to a conclusion and decide what we will do. What is different today is that we are in a serious analysis of the possibility of buyback and how we might do it, under what terms and so on. But I have nothing more to say it at this stage.

**Rajesh Kunnath:**

Sanjay, Rajesh here. I will just address a few of your questions around ROCE, Return on Equity, the dividend payout policy and cash flow generation. And how is the Company focusing on cash flow generation.

As far as ROCE and Return on Equity is concerned, as we have discussed in the past, our focus is to ensure that as we expand internationally, we ensure that our structure is most optimised in a way in which the income that flows through post-tax is at the most efficient fashion. Obviously, the last one or two years have seen us making a lot of investment overseas and which is the reason why today we are able to actually offset most of the domestic revenue decline with an increase in international revenue.

So our whole focus right now is to ensure that the international revenues and profitability thereof improves over a period of time.

So that when you look at it across the board, on the weighted average, we make more margins than what we are making today. That's the primarily focus. So I think, there is no question about us not focusing on ROCE and Return on Equity. But we think, we first get a very good level of stability on our international revenues and the structure thereof, after which we believe that it will automatically flow through to the bottom line in terms of post-tax returns.

We are not that capital-intensive, if you exclude the acquisition which we did and the UFF that we paid in 2009 for entry into LatAm, our run-rate on Capital Expenditure is very small. We hardly spend 6-7% of our revenues on Capex. We only expect that as this margin improves, our returns will improve. So that's as far as the focus on Return on Capital and Return on Equity is concerned.

As far as the dividend payout policy is concerned, we stepped up the dividend payment from 10 to 15% last year. As far as the Board is concerned, we are fully committed to increasing the dividend payout depending on how the profits of the standalone entity pan out in the coming year. So I think the Board is obviously focused on increasing the dividend payout. But your point is noted, we will ensure that the Board frames a policy by the end of the year on what the dividend payout should be going forward. Or let's put it this way, what the base dividend payout should be.

As far as cash flow generation is concerned, we had a few concerns in the earlier quarters because we were setting up shops in quite a few countries. We are now present in 59 countries. So we had quite a bit of catch-up to do it in terms of compliances, in terms of unbilled receivables and everything that goes with it. But we seem to have reached a point now where most of the compliance issues are behind us and we basically need to have a little more of an aggressive follow-up with some of our customers on paying old outstanding amounts. So on overall basis, we believe as a result of all the efforts we are putting in today, focusing on trade receivables, focusing on key customers and the accounts thereof, we should be able to prune down our DSO on billed receivables and bring down the working capital intensity to the extent that it should reflect in better cash flows.

You also needed a little more breakdown on the LiveWire financials i.e. besides the revenues, EBITDA and Net Loss. You needed some details about the cost structure. For the quarter under consideration, the Gross Margins against the revenues of Rs. 181 million was 54.2%. That was the Gross Margin for OLI. Manpower Cost and Other OpEx was Rs. 42 million, which gives us an EBITDA of negative Rs. 24 million. So that's the cost structure. I already explained the Amortisation of Goodwill, which is the balancing number which takes it to the Operating Loss. I presume we have answered most of your queries.

**Sanjay Parekh:**

We will certainly take this offline but I have few things on this. And these are all strategy-related. One is, dividend payout should be as a part of profits and not in absolute 10% or 15%. So kindly consider it. Second is, when I say profitability, profits margin is one, but I am more keen on Return on Capital Employed and Return on Equity getting better. And there, I don't see improvement. Third is, if we assume Capex as 6-7% of revenue, and if we take revenue at, say, even at Rs. 850 crores, it's almost Rs. 50 crores, and we don't generate that sort of cash flows. So what are we doing for that?

So my only point that I am trying to say is that all these need to be goal posts. And I am not saying that this needs to be achieved in one or two quarters. But over the next three years and five years, if you are not going to achieve Return on Equity or Return on Capital Employed in addition to growth, then there will be serious challenge for you requiring to fund it through cash flows. And we are seeing that happening. And in sync with that, the acquisition strategy has to fit in. So we have already spent Rs. 125 crores in an acquisition when there is the need for Working Capital for growth in our core business. I clearly appreciate the efforts you all have put after Mr. Mouli has taken over and Mr. Haight also has given tremendous support and guidance. And I really appreciate what we have done on the international front, the MTN deal, but I really request you all to consider these issues of return ratios. I will take up few questions offline. Thank you very much.

**Mouli Raman:**

Thanks Sanjay.

- Moderator:** Thanks for the questions, sir. The next question of the day is coming from Mr. Subhankar Ojha from SKS Capital. Mr. Subhankar, your line is unmuted.
- Subhankar Ojha:** Yes, good morning and thanks for taking my question. I have a couple of questions. One is, with respect to the Content fee under royalty, which is the line item of your Income Statement that has gone up significantly. Can you explain that again if you have already talked about it?
- Rajesh Kunnath:** You said you had a couple of questions.
- Subhankar Ojha:** Yes, this was one. And secondly, with respect to the LiveWire acquisition, your Gross Borrowing has gone up by Rs. 82 crores because of the loan that you have taken. So what is the cost that you are paying for the loan? So these two, primarily.
- Rajesh Kunnath:** Yes, your first question is on why the Content royalty fee line item is higher in this quarter. If you recollect, when I had summarized the financial results, I mentioned that we had a different sales mix in the current quarter as compared to the previous quarter. I had also mentioned that we had one-time reversals in the last quarter, which was consequent to our closure of certain agreements and reconciliations with our major content providers. So, if you have to add back the content reversal, from a percentage standpoint, it would be almost consistent with previous quarter. So that's for question number one.
- As far as the second question is concerned, the cost of borrowing for the loan taken to fund the OLI acquisition is 4.7%.
- Subhankar Ojha:** Okay. So basically the one-off in the Content fee and royalty, how much could that be?
- Rajesh Kunnath:** That was Rs. 5 crores in the last quarter.
- Subhankar Ojha:** Rs. 5 crores. Okay, so then also, it is I think still higher. What is the sustainable level? I mean the quarterly run-rate would be how much? To the tune of Rs. 30-32 crores?

- Rajesh Kunnath:** Difficult to say at this point of time. It will completely depend on the way the sales mix pans out for the quarter. But our expectation today is, whatever the trends have been for Q2, it should almost be on the similar lines. That's our expectation.
- Subhankar Ojha:** For the rest of the financial year and going ahead?
- Rajesh Kunnath:** Yes.
- Subhankar Ojha:** Okay, thank you so much.
- Moderator:** Thanks for your question, sir. So the next question is coming from Mr. Raj Mohan. He is an individual investor. Sir, your line is unmuted. Please go ahead and ask your questions.
- Raj Mohan:** Yes, thanks for taking my call. First I wanted an update on MTN.
- Mouli Raman:** Okay, any other questions, Raj Mohan?
- Raj Mohan:** Yes. Second is, Mouli, in your opening remarks on Europe you mentioned about clearance of backlogs, which sort of positively impacted revenues. So is the current run-rate maintainable, or due to the backlogs, the base could be lower? Third is, has Indian revenue seen some kind of bottom? Then next question is on Trade Receivables. Will it roughly lead to Rs. 100 crore accretions to Cash with the 40% receipts in October? Is it a material determinant facilitating a more rapid buyback? And one final question is on your employees. A lot of variables seem to be impacting manpower cost which you have explained in detail. What is the estimate for the second half? And on a steady state, is it still heading towards less than 35% of sales?
- Mouli Raman:** I will ask Sanjay to answer the first question, which is about MTN.
- Sanjay Bhambri:** All right, on the MTN thing, at the moment we are engaged with MTN in different opcos. Last time when we had discussed, we had said that we will be doing it in a phased manner. So the first phase of engagement has started. There are around four opcos in different countries, i.e. which we engaged with to get an understanding on the grounds of technical roadmap and plan to migrate them. That's the first phase which is going to start

happening. So you will see action happening on migration in the coming quarter for the first phase.

**Raj Mohan:**

Okay.

**Sanjay Bhambri:**

And I would assume that in Q4, we will start seeing the green shoots from MTN going live.

**Mouli Raman:**

Q4 is when we will see the first customers going live. That is on MTN. As I said, there is a 80% quarter-on-quarter growth in constant currency terms. If you exclude currency impact and backlog revenue, the growth would still be about 50%. So there is underlying growth in Europe, and that is largely driven by the converged VAS in Spain. So that's for the second question that you asked.

Domestic revenue, as I said, because of various actions we have taken over a period of time, our revenue drop has been lower than the rest of the industry, which is about 21% quarter-on-quarter. In September, we have seen stability. And at this point of time, we expect the stability will continue. However, for us to be certain, we want to monitor it for about 2-3 months more. So that is on the bottoming out in India.

**Rajesh Kunnath:**

The query regarding Trade Receivables - I will answer that more from the context of the overall DSO that we are at. When we closed out Q1 of FY2014, we were at a DSO of 166 days, which had its components of 112 days of billed outstanding and 54 days of unbilled outstanding. As of September-end, our overall DSO is 167, which has its component of 115 days of billed outstanding and 52 days of unbilled outstanding. So unbilled outstanding, from a DSO standpoint, has declined from 77 as of March 2013 to 52 days as of September-end. So we are seeing a lot of progress in the unbilled receivables coming down, which is why one of our Balance Sheet items – the Other Current Assets figure has come down.

As far as the billed receivables are concerned, I think your concern was more about whether that's going to build up further and whether it's going to put any strain on the Working Capital. We basically identified about Rs. 54 crores within the Trade

Receivables figure where we had issues. And we believe that once you prune down the Trade Receivables to the region of about Rs. 200-220 crores, which is what our current revenue run-rate is, we should be fairly okay. That's the whole effort. The effort is to prune down the overall Trade Receivables from the current levels of Rs. 278 crores to about Rs. 220 crores. We believe Rs. 220 crores is what would represent the weighted average of Trade Receivables across the Company.

Then coming to the point on Manpower Cost, as we said, the current quarter's Manpower Cost had its element of restatement. What we have said in the earlier quarters was that our underlying Manpower Cost run-rate is in the region of Rs. 75-76 crores. This is what we expect it to be going forward as well. So, we really are not expecting the Manpower Cost to increase even though we expect revenues to improve from this point on. Currently, the Manpower Cost as a percentage of revenues is closer to 40%. Through certain rationalisation efforts and improving revenues, we expect to bring this to about 37-38%. That is our sense right now.

**Raj Mohan:** Okay, thank you very much.

**Moderator:** Thanks for your questions, sir. Participants - if you have any questions, you may please press "0" "1" on your telephone keypad. I will repeat, to ask a question, you may please press "0" "1".

So the next question is coming from Mr. Nikhil Pahwa from MediaNama. Mr. Nikhil, your line is unmuted.

**Nikhil Pahwa:** Hi Mr. Mouli. I was just curious about the status of the data services rollout, the music business in India in particular and how are you planning to tap into what seems to be quite a staggering growth in data usage in India?

**Mouli Raman:** What we are doing is as follows: We are expanding our existing services into the data channel. We have done this in music now. There are two things - one is WAP and the other one is the Downloads. On WAP side, we have already gone live with a few operators and have seen decent results. On the client download



side, we are in the process of engaging with many operators around the world. This has been made possible by our LiveWire acquisition and we are seeing quite good traction for it. So, we expect that over the next two quarters or so, we should have some good deals on the apps side in a few countries. And as far as WAP is concerned, we should be able to share some results in the next couple of quarters.

**Nikhil Pahwa:** What about the performance of the music services that you rolled out with some operators?

**Mouli Raman:** Yes, we will share the results in a couple of quarters. It is too early right now. So I don't have anything to share at this point in time.

**Nikhil Pahwa:** Okay, could you share some more colour on the impact of the TRAI guidelines i.e. which services have largely been impacted? I know, you said that you are waiting and watching, but what's the sense that you get? Because from what it appears from the conference calls, for example, Idea Cellular has had so far, the focus seems to be shifting significantly to data away from VAS. And it is almost an afterthought whereas it used to be the primary focus earlier.

**Sanjay Bhambri:** Hi Nikhil, this is Sanjay this side. The question was impact of TRAI guidelines and I think as you have seen in the presentation, we have understood as per your data sources itself. As you see, that the impact on the activations has been large, but not with respect to revenues. And as I think, Airtel had a call earlier and they showed the number is down. So we are not impacted to that extent, point number one, with respect to the activation which you have seen.

On the stability front, if you see, September was comparably a much more stable month for us. As Mouli said in the opening remarks that we will continue to wait and watch. So that is a brief on the first piece of yours.

You had asked a specific question which said how it is broken into services. I would say it is not lopsided on any particular service, it is very consistent. That was the second part of yours. Regarding the third part, Nikhil, from where we sit and see I don't think

there is an issue of de-focus from the services. I think what we are looking at is taking these existing services to different channels also. And that is what Mouli just said that we are trying to take this to different channels which could be data-driven channels. So the service being delivered will be more on a 360° horizon to the consumer rather than just being on one or two channels.

**Nikhil Pahwa:**

Just one last question. I was curious about the increase in RBT rates in India. For example, Airtel has increased the RBT rate by 20% during the quarter. Is that something that you are seeing other operators also adopting? And how does that increase impact you?

**Sanjay Bhambri:**

Okay Nikhil, firstly, I know you personally get impacted by the RBT rate, I saw it on your website. But jokes apart, it is not uniformly done by Airtel yet. So typically, Airtel is doing this in one or two circles. They will go ahead and do a change and see the impact of it. So in our circles, it is only in one of the circles - which is Karnataka, where 20% hike has happened. So at moment, we will wait and watch the operators; it is early days now. It is not across the board that the operators are increasing rates on RBT.

**Nikhil Pahwa:**

Sir, that's it. Thanks and all the best. Thank you.

**Sanjay Bhambri:**

Thanks Nikhil.

**Moderator:**

Thanks for your questions, sir. Sir, the next question of the day is coming from Mr. Prakash from Kotak Mahindra. Sir, your line is unmuted, you can go ahead and ask your question.

**Prakash Ramseshan:**

Thank you for taking my question. I am actually just taking forward the discussion that Sanjay had with us on the call. Just to reiterate, from a capital markets perspective, really the allocation of capital and the return of capital from an ROE and ROC perspective is what the markets value. And I think that is the latest reflection of acts by the Company and the Board in terms of benefiting minority investors. Sanjay has already stressed this with some great detail and we will be taking some questions offline as well with you. But we would like to stress again that's where we see the undervaluation in the Company. And we think the reason for the undervaluation is the fact that the market

believes that the capital allocation and the capital return policies require greater attention. And we would request you to please consider, therefore, in line with Sanjay's recommendation as well, the return of capital in terms of dividend and buyback. And perhaps, much greater focus on ROCE is required when allocation of capital is made, particularly on acquisitions. Thank you so much for letting me put my comments forward. Thank you, sir.

**Mouli Raman:**

Prakash, I think, your points are very well-taken and the Board has definitely taken that in the spirit of what has been said, that is, it is in the interest of all the shareholders. And definitely, we will take this into consideration and do accordingly.

**Prakash Ramseshan:**

Sir, thank you so much for that. I will just add only that one of the risks that we see is that even the core management team of the Company is being incentivised through ESOPs etc. The binding to the Company stays when market valuation stays right. If I got ESOPs at Rs. 60 and the market price is Rs. 30, actually, the hooks disappear completely. So we think that apart from the fact that the valuations give a better market cap to the Company, the interest of almost everybody who is aligned to the Company gets served better when the market prices the stock correctly. So I thank you so much for taking all our comments on board. And we look forward to actions from the Board in this regard, sir. Thank you, sir.

**Moderator:**

Thank you, sir. The next question is coming from Mr. Srinivas Rao from Deutsche Bank. Sir, your line is unmuted.

**Srinivas Rao:**

Yes, hi, thank you very much. I just wanted to ask on the OLI update which you mentioned in your slide #4. It says, "Interest among many existing operators reconfirmed." I just want to understand, is there a chance that some of the customers of LiveWire may not transition to OLI?

**Mouli Raman:**

No, everybody transitions. All the operators have transitioned already.

**Srinivas Rao:**

Okay, because it said 'many existing operators'...

- Mouli Raman:** No, all the operators have come on board. Obviously, the commitment to marketing varies operator by operator. So that is what we meant actually. It was a pre-condition to the takeover.
- Srinivas Rao:** Okay, so a part of your closing conditions is that all operators of LiveWire will, or all customers of LiveWire will transition into OLI?
- Mouli Raman:** Yes, the contracts were assigned before closure.
- Srinivas Rao:** Okay, fair enough. And just on the MTN deal, you mentioned that four countries will be migrating, which four?
- Mouli Raman:** I think, at this point in time, we cannot disclose it Srimi.
- Srinivas Rao:** Okay, fair enough. That is all from my side. Thanks.
- Mouli Raman:** Thanks.
- Moderator:** Thanks for your questions, sir. Sir, the next question is coming from Mr. Anup from SBI Mutual Fund. Mr. Anup, your line is unmuted.
- Anup Upadhayay:** Good morning sir. In the earnings call that was held after Q4 results, the management had shared that around Rs. 70 to 80 crores of Cash, that was locked up partly with the tax department and partly in our unbilled revenues that will be released over the next three to four months. So what is the status now on that?
- Rajesh Kunnath:** Okay, Anup, I think, you are referring to the point that I made about the monies that were held-up in some countries because we faced repatriation issues. And also whether we have got the concessional tax certificate in India for lesser tax deduction. On both fronts, there has been progress in the quarter. As of the beginning of August, for India we have got concessional tax. That is, tax will get deducted only at 0.5% as against 10% from all our domestic revenue billings. So we have had progress on that front. As far as the repatriation is concerned, in Bangladesh we have got the final approval from the Bangladesh Bank and the Board of Investment. So the repatriation process has already been put in place. And we should be getting the monies in latest by end of November. So that is the progress as far as repatriation and

release of cash is concerned. In Bangladesh, as you know, we have close to Rs. 30 crores of cash which is held-up. And our effort today is to get in at least about Rs. 16 to 20 crores by the end of November. That is the update.

**Anup Upadhayay:**

Okay. And sir, you had mentioned about Rs. 47 crores was reported in the Loans and Advances as recoverable from the IT department and you expected it to be released?

**Rajesh Kunnath:**

You are talking of the explanation I had given on the movement in Other Loans and Advances i.e. you are referring to that point in the Balance Sheet?

**Anup Upadhayay:**

This was in the Q4 call. You had mentioned in the Q4 earnings call that around Rs. 47 crores was being reported in Loans and Advances as recoverable from the IT department. And that in fact, was Cash, but receivable from the department, nevertheless.

**Rajesh Kunnath:**

Okay yes, so these are the amounts refundable primarily in India from the tax authorities for our outstanding assessments. There are two years' assessments, which are in the process of being closed-out. We are confident that about Rs. 9 to 10 crores of this Rs. 47 crores should come in by the end of this fiscal. The balance amount, the large chunk of it pertains to the last assessment year, for which assessment proceedings will be taken up only in the following year. Around Rs. 9 to 10 crores is the visibility we have out of that amount for the current fiscal.

**Anup Upadhayay:**

Okay, and sir, you also expected to prune down unbilled revenues by around Rs. 50 crores. But when we look at the current Balance Sheet, it appears that the Working Capital has got significantly stretched. So what has changed from the beginning of the year to now?

**Rajesh Kunnath:**

So there are two aspects to it, Anup. One is unbilled revenues have reduced. Unbilled revenues have reduced by Rs. 30 crores quarter-on-quarter. And what we have to remember is that if you look at the revenue run-rate, this quarter, we crossed Rs. 206 crores, which means our revenue run-rate has also become higher. It is almost Rs. 70 crores a month. So we do have that pocket of about Rs. 54 crores of delayed payments in Receivables

which I spoke of. If you exclude that and the fact that we have made substantial progress on reducing unbilled revenues, our Working Capital cycle would have improved.

**Anup Upadhayay:**

Okay. So sir, how soon do you expect that to start reflecting in the Balance Sheet?

**Rajesh Kunnath:**

As I said, the effort today is to get the Trade Receivables to the region of about Rs. 220 crores, because that would roughly reflect a little more than a quarter's revenue at current run-rate. And that is the typical cycle which operators pay us at, which is about three months of revenue. We also expect unbilled revenues to be in the region of 45 days. That is the optimal mix that we should be at. So the point I am trying to make is that our effort is to see that we get Trade Receivables down to about Rs. 220 crores, which is the optimal level it should be at, at the current run-rate.

**Anup Upadhayay:**

And secondly, I wanted to understand how much organic Capex has been done in the first half and what is the plan for the rest of the year?

**Rajesh Kunnath:**

For the first half, the Capex is Rs. 11.7 crores.

**Anup Upadhayay:**

Okay. And how much more do you plan in the rest of the year?

**Rajesh Kunnath:**

For the year, we had forecasted Capex of about Rs. 50-55 crores. We expect MTN-related Capex to happen in the second half.

**Anup Upadhayay:**

Okay. And sir, lastly I wanted to confirm a comment that has been made on India. Has October been worse than September for the Indian business or has it been the same as September?

**Mouli Raman:**

Yes, when we said there is stability, that's what we meant. As of now, September and October look stable. But we would like to monitor for two more months.

**Anup Upadhayay:**

Okay, sir, thanks a lot for your answers.

**Mouli Raman:**

Thanks a lot. One last question, please.

- Moderator:** Thanks for your questions, sir. Sir, the last question of the day is coming again from Mr. Srinivas Rao from Deutsche Bank. Sir, your line is unmuted.
- Srinivas Rao:** Yes, hi. Just one question on your Independent Directors, do they replace any existing Independent Directors or they add to the board?
- Mouli Raman:** They add to the board.
- Srinivas Rao:** Okay, so the existing Independent Directors do remain on the board?
- Mouli Raman:** Yes.
- Srinivas Rao:** Okay, thank you.
- Mouli Raman:** So thanks a lot everyone, thanks for being on the call and looking forward to your continued support. Thanks, bye.
- Moderator:** Thank you, sir. We conclude our conference call for today. Thank you for participating, you may all disconnect now. Thank you, have a good day.

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