

OnMobile Global Limited

Investor Conference Call

3rd November 2008

Operator:

Thank you for standing by. And Welcome to the OnMobile Investors Conference Call presented by Mr. Arvind Rao. At this time, all the participants are in listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question, please press “star one” on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to our Speaker now. Over to you, sir.

Arvind Rao:

Thank you very much. This is Arvind Rao. I am the Chairman and CEO and Co-Founder of OnMobile. I wanted to welcome everybody on this call. I am here in Bombay with Sandhya Gupta, who heads our M&A and Investments. In Bangalore, we have Rajesh Moorti our CFO; Mouli Raman, our CTO and Co-Founder and Praveen Kumar, who is our IR Manager.

I'll first give the highlights of our business and a little bit about the fundamentals. Then we'll get into the numbers both for the second quarter and the first half of this year, and after that we'll have Q&A.

So, the first thing I wanted to just thank before we started the call. These are extenuating market conditions we all are well aware of that, and I am happy to say and I wanted to thank all our loyal investors who have stayed with us. Almost all the large funds whether it's Soros, Quantum, Ward Ferry, ICICI Prudential, Bessemer Venture Partners, they have all stayed with us and they haven't sold out and that's a good testament to the fundamentals of our business.

So the first point I wanted to make is, as we go through these choppy waters and these conditions, the fundamentals of our business remains strong. We have not seen much of a change at all in either the underlying demand for our services from end-users and from the operators through whom we access our end-users.

There have been some cases where a few operators may have promoted our services less aggressively due to market conditions but by and large there is no change in the fundamentals of our business and the long-term potential of the business and I want to reiterate that.

So, in the long run, you know we do see our business and revenues over the three four years growing at around 50 - 60% and we do see maintaining our margins at the 20 - 22% levels, that remains unchanged from what we have said earlier.

The second point is that, in these circumstances we are seeing unique opportunities for OnMobile to invest, to expand internationally with customers and to expand market share.

And what we've been doing in the last six months is that we have increased our investments both internationally and in products to capitalize on these opportunities. Not surprisingly, due to our IPO, we are better capitalized and financially stronger than almost any other company in our space. And due to our technical depth, we are seeing more and more request from customers for our services, particularly overseas.

So both in terms of products and in terms of international expansion and M&A, we are continuing to invest very heavily to expand our business on a long-term basis.

The third point I wanted to make before we get into the numbers, I am happy to say that the company has been awarded several industry awards both in India and in International level. AdRBT, which is a very key flagship project for us, has been declared as a finalist at the 3GSM Asia Conference, which is one of the premier International Conferences.

OnMobile is also the winner of the Deloitte Technologies fast 50 awards for the second time. One of our investment companies, VerSe, has also been declared as a finalist for vertical job search at the 3GSM Asia Conference. And finally, the French company that we acquired about a year ago, Voxmobili, their Phone Book 2.0 product, which is a very advanced product for doing phone backup as well as social networking has been awarded the top 20 applications on Android by Google in the world. So we continue to innovate and provide good products going forward.

Very quickly I will talk about the revenue and our investments. On the revenue side, our growth in India continues unabated. Most of our customers have had a very stellar growth in value added services, one or two of them has gone a little slower, but I see that entirely as a temporary phenomenon. I don't see any need to change the way they will be promoting our services and growing over a longer term horizon.

On the international dimension, while our international revenues have gone up from 15% at the end of last year to around 21% currently, we are seeing slightly slower deployments. What this means is that there is a no slowdown in customers signing up and requesting our services but they have gone slower in actually launching these services. So, if the service took four to six months to launch previously, it is now taking a little longer, around eight or nine months.

So this has resulted in revenues being pushed out a little bit, but in the long term the potential of our business remains unchanged.

Finally, in the last six months we have undertaken several very large investments, in particular AdRBT, M-Search, cross operator press * to copy and RBT replacement. Each

of these projects have been extremely large, we're seeing very encouraging results but the revenue growth and the revenue accruing from these projects is going to take another quarter or two to actually start materializing. So as a result of that, a lot of investments that we have made will show up in our expenditure line but not fully reflected on the revenue line.

Another example of that is phone backup in India from the French company Voxmobili that we bought, which has huge potential in the Indian market. We have signed with several large operators and gone live with them but the details in terms of deploying them on the phones and the handsets that are required and the way the handsets are procured and delivered to consumers in India is slightly different from the way they do business in Europe and hence this has led to a slight lack in revenues.

So, with this I will turn it over to Rajesh Moorti to really walk you through the second quarter and half yearly results. The one thing I would like to reiterate again is, from our standpoint, we don't see any change in the fundamentals and this is a business that we are managing on a year-to-year basis not on a quarterly basis.

The projects that we are undertaking in the telecom industry, the sales cycles are extremely long, product deployments also take a long period of time. But the long term potential is absolutely unchanged. So with that Rajesh, I'll turn it over to you to walk through the financials.

Rajesh Moorti:

Thanks Arvind and thanks everyone for joining the Onmobile earnings call. I'm happy to present the financial performance of the company for the quarter ended 30th, September. The consolidated revenue for the quarter was 975 million. The EBITDA was around 274 million that is around 28% of the total income and the profit after tax was around 184 million that is around 17.3% margin.

If you look at the standalone revenue of the quarter, it was around Rs. 794 million Rupees as against 584 million for the same quarter last year. EBITDA was around 293 million that's around 37% of the revenue as against 42% last year. And the profit after tax was around 174 million, which represented around 21% margin as against 22% for the same quarter last year.

If you look at the three key cost line items for us, they are the content and the direct cost, the employee cost and the depreciation. And I just wanted to give a brief insight into what has driven those numbers.

If you look at the content and the direct costs, there are two reasons why these costs as a percentage have gone up. Number one, we are working on a very important project right

now that is, the mobile marketing project, where we have incurred some cost and there is no corresponding revenue contribution from that project.

Number two, a significant chunk of our content cost is actually a fixed monthly payment. Whereas our revenues, as we have said before, is not uniformly spread through the year, so that as a percentage of revenue stands out, so there is nothing that is fundamentally changed in the content cost per se.

On the employee cost, if you look at our standalone business, the employee cost as a percentage of revenue has remained more or less flat, but the impact that you see in the consolidated P&L is more on account of the acquisition of Voxmobili and Telisma.

Telisma has been consolidated for the first time this quarter and in case of Voxmobili, as Arvind mentioned earlier, for the expansion in the Indian and sub-continental markets we have changed the business model, where we have moved to a revenue share model as compared to the licensing model. What it means is that we are incurring the cost on employees and deployment, where the revenue will flow through later.

Number two, even in the French or the European market for Voxmobili, while we have changed the accounting policy for revenue recognition, the underlying business and seasonality continues to be the same as what you had seen last year. So again you would see that while the costs have been accounted from April onwards, the full revenue impact of that has not been recognized in the company books yet.

The third key line item is depreciation. Again you would see depreciation as a percentage of revenue going up from 9% to 11%. That's because of the investments that we continue to make for new customer deployments, especially in the international markets or the new customer projects that we have won in the recent past. The depreciation cost is also more or less fixed in nature month after month. Whereas again as the revenue ramps up in the second half of the year you would see that percentage coming down.

Another point that I wanted to mention here is that, post the September quarter close, given the turmoil in the financial markets, in one of our investments in liquid funds, we had to make a provision for diminution in value of that investment and that extraordinary expense has been accounted in the September quarter results itself, which is roughly around 11 million. So this is the financial highlight that I wanted to give.

I'll hand it over to Mouli, who will take us through the product highlights.

Mouli Raman:

Hi. Thanks, everyone. I will briefly touch upon some of the major launches that we have done over last quarter. The first the one is that, we had undertaken the largest RBT swap towards the end of the first quarter. And the reason why we were given the opportunity

by the operator, is to increase the subscriber penetration of RBT, as well as to increase the revenue per subscriber.

We are happy to note that, the same has materialized and within a short period of three months, we have shown significant improvement in the penetration of users as well as revenue per user. In fact, riding on this, we have also got two large orders for RBT replacement outside India.

The other major project that we have undertaken is Mobile Music Search on SMS. We had launched in one operator in the previous quarter and we have got the order and launched it in three more operators in the last quarter. Similarly, we've also launched the Music Search on Voice in three more operators.

Another major product is the cross operator star to copy in RBT where it is possible for the users in one operator to copy from subscribers of other operators. While there have been delays in the project, we had launched this project towards the end of last quarter. And, AdRBT, we had launched the trial last quarter, and while we will be concluding the trial by the end of this November, the initial results very encouraging.

Those were some of the projects in India. On the international front, we have launched M-radio in the largest operator in Bangladesh and it is seeing very good results. And also we have launched our first press star to copy in international operator in Indonesia.

These are some of the new launches. Some of the new wins that we have is that, we are happy to note that we have got Aircel as one of our customers now, we are going to be powering their RBT in the new circles and we are also powering their M-radio in the south. And another major win that we have is, we will be powering one of the large operator's SMS application, where we will be powering their SMS portal.

These are the new wins in India and on the international front we have been selected as a strategic VAS partner for one large operator in Asia outside of India. These are some of the new highlights. Back to you, Rajesh.

Rajesh Moorti:

We can now open it up for Q&A.

Question-and-Answer Session:

Operator:

At this time, participants who wish to ask any questions kindly press "star 1" on your telephone keypad and wait for your name to be announced, if you wish to cancel to your request please press the "hash" or the "pound" key.

First in line, we have a question from Mr. Ruchit Mehta from HSBC. Please go head, sir.

Ruchit Mehta:

Yeah. Hi. Good morning guys, just to get a better understanding of your results, you mentioned that you have invested a lot in this quarter on new products, and new launches. How much was the total investments, which actually ate away into your EBITDA?

Arvind Rao:

Yeah. There are direct expenses associated in terms of manpower etc, but, in terms of the software development it is very difficult to break it out entirely. Because, many of our products are very closely interlinked and they use software modules from products that have been developed in the past.

If I were to use an example, if I look at, let's say, our mobile marketing SBU which consists of about 15 to 20 people. That's been going on for about a year and a half working on two or three very large projects. AdRBT is like the number one in the world. We have been working on that for year and a half. And, it's still in testing phase. But once it gets launched out, it has the potential to be extremely huge and transform the way the ad industry works on mobile marketing.

So it's difficult to break. We don't really break it out on an investment basis, because many of the people are really the same. They are working on mature products as well as new products.

Ruchit Mehta:

Okay.

Arvind Rao:

It's very difficult to do it.

Ruchit Mehta:

Sure. Sir, we use to always believe that growth for company would be around 60 - 65% and the margins would be maintained. You'll probably look at the same sort of ballpark on the profit growth. You know, we've done about 56 - 57% in the first half of the year.

Considering what we were expecting at the beginning of the year and especially on the profit front, how do you see the second half of the year panning out? I think all of us

would require some sort of guidance because we really don't know how predictive our business is at the moment?

Arvind Rao:

Yeah. On this front, let me tell you I don't want this to be construed as a guidance in any manner.

Ruchit Mehta:

Sure.

Arvind Rao:

The first thing is in terms of fundamentals, which means if you really take a two to four years horizon, I see, absolutely no diminishing or change in our forecast, or the way we see the business materializing, which is roughly 60% plus growth.

Absolutely nothing, I mean when we talk to customers both in India and overseas, their enthusiasm for getting more and more products from us and deploying them is absolutely unchanged on a long-term basis. In the short run, given the extenuating market conditions, you're going to see a few blips, some customers are going to go slow on this, because they either have large network expansion plans, which stuck up their cash, or they are going slower in terms of marketing expenditure in promoting value-added services.

And that happens by and large in maybe a few customers, not across the board. So we don't see any change at all in terms of our long-term business potential.

On a short-term basis, it's very difficult to do, but I would say that on a full year basis, we would end up at somewhere around 50 - 55% with around 20 - 21% margins. That's where we anticipate growing.

Ruchit Mehta:

When you say 20 to 21% margin, you're talking about net margin?

Arvind Rao:

Net Margin, yes.

Ruchit Mehta:

Okay. Great. And also could you just give us sense of an update on what's happening on the Vodafone front. Because there was a lot of expectation that, considering Hutch was

bought over by Vodafone and you being one of the larger accounts, any progress over there?

Arvind Rao:

Yeah. let me rephrase one thing first on the margin bit. I have told several of our investors with whom I have met one-on-one, the way to think about our business is that it is a very heavy investment oriented business in terms of garnering market share. I'm happy to say that in most of the customers that we are live with today, we are maintaining or actually growing our market share, which is the key indicator that we use on a long-term basis. And we are ready to make the investments required for that. Today for example, if we were to say, margins is what we want, let's go a little slower on the investments, we could take our margins to 25, 30 or 35% without trying. On the other hand, we are not going to do it, because we see that this is somewhat similar to what the internet was in '98, '99.

And these are real estate slots. If we are willing to invest and get into the right slots with the right customers, and these are very large customers both in India and overseas, we have those slots for life and we can milk them for life, that's the approach that we're taking.

And on the Vodafone side, the change in ownership has resulted in a couple of things. One is obviously; internally they are going through all their changes in processes, in terms of policies, management and integration etc. Now, has that had a material impact on us? Not material, all though it has had some effect. The strength of our relationship is absolutely rock solid. The results that we have achieved in value-added services with Vodafone India, which is probably one of the highest in any Vodafone operator anywhere in the world, has been documented and sent to all Vodafone entities worldwide.

I'm happy to tell you, I don't want to specify the name, there is one very large Vodafone operator that we have signed with, which is the first indicator of us going international. And that was directly a result of them seeing the results that we had delivered in Vodafone India and trying to replicate that overseas. I'm also happy to tell you that we are in discussion with at least three or four of their operators and in advanced stage overseas and I hope that several of these will actually materialize. The indications are very strong.

But you must understand one thing, typically telecom operators have very long sales cycle, although in our case because of the internal reference and the credentials that we are getting both from Vodafone India, as well as at the headquarters level, overall signs are extremely positive. Absolutely no change in our view with the relationship with Vodafone from the last call.

Ruchit Mehta:

Could you reveal the geography in which these accounts that you have mentioned, the three or four that you are in negotiations with?

Arvind Rao:

For one large win that we have done is actually in Africa.

Ruchit Mehta:

Okay.

Arvind Rao:

Okay. And it's a very large operator. Probably it's the largest in their emerging markets category after India.

Ruchit Mehta:

Okay.

Arvind Rao:

The other places, where we are in advanced stage with them are largely in Europe. That's where the bulk of their activities are.

Ruchit Mehta:

Okay. Great, And just finally on your balance sheet, you mentioned that you have this small MTM loss. This is money market, liquid mutual funds or equity funds?

Rajesh Moorti:

As a policy we do not invest in the equity funds. These are liquid funds and you know kind of liquidity crunch that was there.

Ruchit Mehta:

And what's the total cash and bank balance or cash equivalents at the end of the quarter?

Rajesh Moorti:

Around 250 crores.

Ruchit Mehta:

Okay. Great, Thank you so much.

Operator:

Thank you, sir. Next, in line we have a question from Mr. Srivathsan from Spark Capital. Please go ahead sir.

Srivathsan:

Okay. From a new products point of view, like the new SMS search etc, typically how long does it take for some of these new products to become of a good revenue source? Will it take six months, one year, how long does it take typically?

Mouli Raman:

It depends on product-to-product, there is no one answer to it. For example; music search, the way we are viewing it is that, search is a vertical and we have taken music as a first domain for search. And since this is riding on RBT, the uptake from the user standpoint would be faster. But, whereas if you look at local search and so on, it basically takes much longer. What we have launched now is music search.

Srivathsan:

Okay.

Arvind Rao:

Just to expand on that very quickly, the products that we launch cover a very wide spectrum. Because, our philosophy is that, anything that requires or is involved in value added services to some extent, falls into our purview. Recently we launched USSD services with a very large operator in India and literally within a period of two or three months, it was generating some thing like 50 to 60 lakhs a month of revenue with hardly about five people delivering or working on the product. Very profitable. On the other hand, at the other extreme, you have products like AdRBT, where we have been working out the details for a year to year and a half and its still under trial and experimentation, because it's a very complex product.

Srivathsan:

Okay. Just want to take it further more; at this point of time, a large point of your investment is more towards generating new revenues. So is it possible for you give us what could be the kind of Capex or investment that we need to make to sustain revenues.

Like RBT at this point of time, once in three or four years you may have to replace servers and other things. So what would be the sustained Capex we have may have to incur as a percentage of revenues?

Arvind Rao:

I'll let Mouli add to this, but fundamentally the way our business is, if I look at existing large products like voice portal and ringback tones in particular, if you were to just sustain those products indefinitely into the future, the investment required to do feature changes and enhancements and maintain them is not great at all. Probably we would need less than half hour manpower literally, if we were to just do maintenance mode.

Srivathsan:

Okay.

Arvind Rao:

In terms of Capex, it is only largely linked to the revenue growth or the subscriber growth in the underlying operators. So that will only happen which is proportional to revenue. Unless the revenues grow, there is no need to do the additional Capex.

Srivathsan:

Okay.

Arvind Rao:

If you look at it from a pure hardware standpoint, our hardware consists primarily of servers and what is called as speech processing cards.

Srivathsan:

Okay.

Arvind Rao:

The servers typically have a life time of around three and a half to four years. Whereas the speech processing cards have a life time of seven to eight years, although we depreciate them over three years. So in reality the hardware component that has a drag on Capex is not that great in our business. And if you look at it on a maintenance basis it is really not very significant at all.

Srivathsan:

Okay. Fine. The whole idea was to get an idea that after some time when the maintenance will not be a drag, so assuming some of these products become big, then from a return on investment and margins point of view, we see a significant improvement over two to three years horizon, that was the whole idea.

Arvind Rao:

See it's like this. The real question here to ask is that at which stage will the industry and therefore our business really mature to a point where it starts throwing up huge amounts of cash and it's profitable. Right now if somebody asks me, we see ourselves on the low end of the S curve. If you look at the internet as the nearest proxy, we are still in the early stages where probably where the internet was in the year 2000. Where even though we are growing so fast, the number of products and the number of people who are using value added services is still extremely small.

Srivathsan:

Okay.

Arvind Rao:

We are addressing almost 400 million subscribers today through all are operators and we are operating at a scale of around 12 billion calls a month in value added services which is still larger than all our competitors put together.

Srivathsan:

Okay.

Arvind Rao:

But even that, is small compared to the size of the telecom Industry and the potential that we can deliver.

Srivathsan:

Okay.

Arvind Rao:

Really it would be shame if we just sat back and tried to milk our existing products, because then we would end up losing market share and more importantly thought

leadership with our customers which is something that we are not going to allow to happen.

Srivathsan:

Okay. Sure. And I also think that the entire R&D expense is taken to P&L and nothing is being capitalized at this point of time?

Rajesh Moorti:

No, we don't capitalize any R&D expenditure.

Srivathsan:

Okay. Sure. Thanks a lot.

Operator:

Thank you, sir. Next in line we have a question from Mr. Nitin from Macquarie. Please go ahead sir.

Nitin:

Good morning. Thanks for the call. Just had two questions. First, your other services were really high this quarter. As I understand this is essentially the sale of hardware equipment to your customers. Is it the run rate that we should be modeling going forward? And my second question was regarding your PAT margin guidance which you're maintaining. But if I look at it a big chunk is coming from the other income which is essentially your interest or income generated from cash. But as we go forward from FY10 and FY11 onwards, what exactly do you see is an offset to compensate for declining other income?

Arvind Rao:

Rajesh, you want to first explain, Rajesh and Praveen, what are the line items? What sort of things are in the other sales and services and then I can talk about the other income part of it.

Rajesh Moorti:

Okay. The other sales and services is the impact of the consolidation, Nitin. Most of our income in India is on the Telecom value added services, but when you consolidate Telisma and Voxmobili, there are two components there. One is the license income and

the other is services income. So that's what you would see. It doesn't really change much quarter-on-quarter. But I would rather urge you to look at the full year number other than just quarterly numbers.

Nitin:

Okay.

Arvind Rao:

And coming to your second point, other income, yes, we have a lot of cash in the bank and that is generating some income. Although, I must say internally whenever we have had discussion and at least from my standpoint we have parked it in the safest of safest securities. We have a very strict board as you know which consists of some eminent stalwarts who have urged us to be very conservative. But when you're earning funds at 6 to 8%, and inflation is running at 12%, and we see unlimited opportunities for growth and we can grow as fast as we want to grow. Basically we are looking for more and more investment opportunities. So tomorrow, if we see some very large opportunity in our customer to more or less take over or operate a large chunk of their value added services and that requires an investment of 50 or 100 people from our side, we can do it.

Arvind Rao:

In terms of margins, margin management as I said before, the trade off really for us is how much do we invest and how much do we milk. And when I'm saying that we are roughly anticipating that we can stick to 20 to 21%, or 22%, roughly in that range, really what I am saying is that we will have to manage the level of investment that we make. At the same time, harvest the mature businesses that we have, which are subsidizing and funding all our new investments such that we can deliver these numbers to the street.

Nitin:

Sure. Sir, if I understand this correctly, is it correct to assume that in the growth phase at least for the next year or so it's more likely that you are going to focus on your total PAT margin guidance and we should not be looking at your EBITDA margins, just because you're going to keep investing in the business.

Arvind Rao:

I mean the two of them are linked, The way we run our business is fundamentally we look at revenue growth and we look at PAT margins. They are the key drivers for us. The third key driver that we use from an operational standpoint, which is something that we do not publicly talk too much about, is really the mind share, the thought leadership and the market share that we have with our leading customers. Because that's the leading

indicator of revenue growth and PAT margin .If you start losing the thought leadership and therefore the market share in customers, in the longer run, you're not going to be able to succeed delivering the revenue and margins. Whereas, if you maintain and grow your market share, it's almost certain that revenue growth and margin growth will happen over time.

Nitin:

Thanks for that. I just had a clarification regarding the other services which Rajesh talked about, he said we should look on a quarter-over-quarter basis, there's not going to be much fluctuation, but then just looking at the past three quarters it has gone from 18 million to 30 million and now 70 million in this quarter. So, just want to understand, going forward what should it be remaining at, considering Telisma was consolidated for the first full quarter, is the 70 million the correct run rates going forward?

Rajesh Moorti:

Yeah, Telisma has predominantly other services income as compared to Voxmobili and I would rather look at the total revenue line rather than the split between the telecom value added services and other services.

Nitin:

Thanks.

Operator:

Next in line we have a question from Ms. Deepti Chauhan from Asit C. Mehta. Please go ahead, ma'am.

Deepti Chauhan:

Good morning, sir. I just had three questions, one was, I just wanted to know what would be the revenue mix right now for this quarter?

Arvind Rao:

You are talking about the revenue mix by product line?

Deepti Chauhan:

Income, yeah. That's right.

Arvind Rao:

The revenue mix has not changed much. We are still operating at about 35% to 40% revenue coming from ring back tones and network products like missed call alert and dynamic voice mail.

Another 35% to 40% comes from voice portal and voice speech related services.

And about 15% to 20% comes from data products which is our on-device portal, WAP portal, phone backup.

Deepti Chauhan:

Okay.

Arvind Rao:

That's not changed much from the previous quarters and, you know typically going forward this ratio is not going to change dramatically quarter-to-quarter unless we do an acquisition.

Deepti Chauhan:

Okay. And in terms of growth for each product segment, will you be able to give us any guidance as to what is the kind of growth we should be factoring in for all these individual segments?

Arvind Rao:

I think that's difficult to do, because, to a large extent it depends on the timing of large customer sign-ups. So just to use an extreme case, suppose we go and sign up a very large operator in Europe where obviously data services is much more prevalent than the other two product lines, that's going to have a skewed effect on our data services as a percentage of overall revenue.

On the other hand if we go and sign up a large operator in an emerging market like Africa let's say, that may have a skewed effect on ring back tones or on voice portals.

So we don't want to give out any sort of forecast where it creates an unnecessary constraint on management. We are just managing towards the top line.

Deepti Chauhan:

Fair enough. One last question, if you could just give us an idea of the impact on the top line from Telisma and Voxmobili for this quarter?

Arvind Rao:

In the first half of this year the fact is that we went from 15% to 21% in data services. A large chunk of that is coming from Voxmobili. I want to reply a couple of things. If I look at Telisma which was the last acquisition that we did, Telisma is a speech recognition company. So the reason we bought Telisma was not because of its financials or its standalone financials as a company. We bought it for the technology and the IT capability.

So just to give you an example, since we bought them, we have started deploying them in India, we have developed a Malay language model, we have developed a Thai language model, we are developing four new African language models, and this is a significant intellectual property that we are developing using Telisma to support the core business in terms of signing up operators as well as generating revenues. So, to evaluate Telisma on a standalone basis in terms of revenues is not really relevant at all.

Deepti Chauhan:

Okay.

Arvind Rao:

On the Voxmobili side, it is relevant because that was a more or less a standalone company that we purchased with clear products and a product roadmap and employees.

Deepti Chauhan:

Okay.

Arvind Rao:

Now, over there, we have done one major change, which is, we have changed the licensing of the business model which Voxmobili was using. And let me just elaborate on that. Voxmobili, when we bought, it had a product called Phone Backup, which is a phenomenal product. But they were selling it to the operators on a licensing basis which means, they go to an operator, they negotiate the rate, the operator pays them some amount say a million dollars or million and half dollars and that's it. It's a one time sale. Whereas, the Onmobile business model that we have pioneered for the last eight years and has worked extremely well is the revenue share model, which is, we say don't pay us anything upfront but give us some percentage revenue and we will grow the business along with you.

Deepti Chauhan:

Okay.

Arvind Rao:

Now if you look at any one customer over a five year horizon, the value of a revenue share contract is literally 10 to 12x of an upfront licensing model. That's what we have seen. But what it does do is, in the near term it has a negative effect. For example, ever since we have bought Voxmobili, in the last almost six to eight months, we have signed them up with some very, very large operators including Maxis, Malaysia; Indosat, Indonesia; Airtel and BSNL in India.

Now, if Voxmobili had sold all these customers on a licensing basis, they would have blown through all the numbers that they had given us at the time of the acquisition. But on the other hand, we have chosen to explicitly drive all these customers on a revenue share basis.

So, in the near term it's a wrong way of looking at it on a stand alone basis. We are doing things for a longer term basis.

Deepti Chauhan:

Right. Okay, sir. Thanks, thanks a lot.

Operator:

Thank you ma'am. Next in line, we have a question from Ms. Subhashini Gurumurthy from JM Financial. Please go ahead.

Subhashini Gurumurthy:

Hi, most of my questions have been answered. I just wanted to know you mentioned that there is some seasonality in Voxmobili on a standalone basis. So, what percentage of revenues do we normally book in the first half of the financial year?

Rajesh Moorti:

Typically Voxmobili follows the calendar year, because that's the underlying business year for most of the businesses in Europe. And you would see that almost 50% to 60% of the business actually would be in the last four months or five months of the year. That's how seasonal it is.

Subhashini Gurumurthy:

Sure, and just one other thing, you also mentioned that you have noticed some slowdown in the international market in terms of operators launching their services. Have you seen any such trend with any of the Indian operators till date or do you expect something in the near term?

Arvind Rao:

Yeah, I think the slowdown is definitely more pronounced internationally than in India. Although I must say in India, there have been one or two cases where people have gone slow, particularly on some very large products or projects. Like for example, on AdRBT, we have actually gone much slower because, people are very concerned that the service could be viewed as intrusive and so we are just doing a very careful positioning and pricing and getting all the bugs out before going live with it in a major manner.

On the international side, for example, as I said we have signed two or three very large customers. We thought they would be live in probably this quarter. But it looks more likely that they are going to come on stream towards the end of next quarter. And that's primarily a function of their network roll-outs, because, when we deploy our product, we deploy inside the network of the operator. And many times what they do is, they sequence this deployment in the context of other large projects that they are doing.

And we have no control over that. But as I said before, on a quarterly basis does that worry us and do we try to get the operators to act to it and move ahead? Sure we do. But on the other hand, we have limited control over it. But the good thing about it is basically if at all it has any impact, it delays the revenue ramp up but there is no fundamental change in the competitive win situation or in the demand for our businesses.

Subhashini Gurumurthy:

Sure. And any change in the revenue share agreements which you have with the telecom operators? Have there been any negotiations?

Arvind Rao:

Last quarter, there have been no major negotiations of any form. Its more or less stabilized. I don't see any major change in that.

Subhashini Gurumurthy:

Sure, Thanks, that's all from side.

Operator:

Thank you, ma'am. Next in line we have a question from Mr. Shekhar Singh from Goldman Sachs. Please go ahead, sir.

Shekhar Singh:

Hello, sir. Just wanted to understand the guidance, since you talked about the PAT level margin of 20%, what is the sort of operating level margin that you're looking at, for FY '09?

Arvind Rao:

Shekhar. First of all, I want to say one thing very categorically and I want to reinforce this again and again. In a business like ours which is white labeled, which means, we have no control over a few things. On the other hand, we have very strong relationships and market share in customers. So the question is I don't want to view this thing as guidance. I want to view it as saying that this is our internal forecast of where we see growth from a standpoint of communicating it to the street.

Shekhar Singh:

The question is basically like, if you look at last year's revenues of around 266 crores, and you take into account 50% growth. So, we are looking at somewhere close to 400 crores of revenues this year. And then if we take, say somewhere close to 20% margins, we are talking about a PAT of 80 crores.

And if you take another income of 30 crores and you adjust it for taxes, we are basically talking about 'adjusted for other income PAT' of somewhere close to 60 crores as compared to 56 crores last year. So if that is the case, then as such adjusted for the other income there's hardly any growth in the business, at the profit level.

Arvind Rao:

Yeah, as I said before, the way we manage it is we try to trade off different line items. So for example if we have a line item that is contributing hell of a lot. What we are going to do is use that to some extent to subsidize and to invest more.

Shekhar Singh:

No but sir, the drop in operating margin seems to be extremely high and just wanted to understand where exactly is that portion of operating profit going?

Arvind Rao:

Yeah, like I told you before, look at it this way, I gave you an example of mobile marketing. Our mobile marketing team which has been working on ad RBT, just as an

example, this is one project that we are undertaking and it consists of roughly 15 to 20 people and they've been working for a year and a half, and there is zero revenues to contribute for it. And we have several other teams like that which are working on projects, which are going on to come on stream at some point in the future. So that's why you have an operating margin drop. If we don't do these sort of investments, its going to be difficult to grow market share and retain our market share going forward, given the growth of the industry.

Shekhar Singh:

But it seems that the operating margin drop is almost like 1000 basis points or more?

Rajesh Moorti:

Shekhar, I just want to add a couple of points here. One is that the other income number that you had is obviously a back of the envelope calculation. Last year we had other income of almost 7.5 crores. This year it is not going to be 30, I don't know how you calculated that number. But more importantly the...

Shekhar Singh:

For the first two quarters itself your other income is 17 crores.

Rajesh Moorti:

Yeah. But we have much lower investible surplus and we are now, after this incident of diminution in value of our investment, where everyone thought that liquid funds were the safest ones, we are actually going for even more secure investment, okay? So that is going to reduce the other income for the second half of the year.

Number two, this year we also have the Telisma impact which Arvind has reiterated in the last call and this call is not really something that where you can see the return on investment immediately. It is a technology acquisition and that has the impact on the operating margins as well as the PAT, negative impact.

Number three is the VOX Mobili discussion that we have had, is that, it would have been very easy for us to continue rolling out the product in India on a licensing model and realize significant one time revenue and the PAT upside. But we have instead decided to go for a revenue share model which will really be seen in numbers over the years. And on top of that, the new business initiatives that we have like mobile marketing and data products within the country, so all these have added up. That's broadly the reason.

Arvind Rao:

Shekhar just on that front, the Voxmobili product, like I told you, its got about a team of 30 to 35 people operating out of India, who have been used for deployments as well as customizing the product in all these Asian countries where they have deployed Voxmobili after acquiring them including Airtel, Indosat, Maxis etc. Okay, now that the revenues from the efforts of those teams, is just beginning to trickle in now and over a period of three years, it will be huge. We are making all the expenses upfront.

Shekhar Singh:

Sir, lastly just wanted to know, recently we all received an SMS from Vodafone talking about a reduction in the surfing charges for music downloads, so does it mean if Vodafone reduces those charges, your revenue shares of that also goes down?

Arvind Rao:

No, I think if I have not mistaken that was for the reduction in the access charges which is the GPRS data connection rates. We do not get a revenue share on that anyway, so that does not affect us.

Shekhar Singh:

So, this was related to the surfing charges for music downloads?

Rajesh Moorti:

Shekhar that also, I had clarified to couple of guys on a call. This is, we have a music search related SMS facility, right. So it is not a normal access charge, but this is the when you do search on SMS which is a new revenue stream actually for us, which did not exist earlier. The core voice portal or SMS charges have not come down. This is only if you are searching music through SMS, the access charge related to this has come down.

Shekhar Singh:

Thank you, sir.

Arvind Rao:

Okay. Thanks.

Operator:

Thank you, sir. Next in line we have a question from Mr. Vikram Subramanian from Motilal Oswal. Please go ahead, sir.

Vikram Subramanian:

Hi. Good morning. I just two questions. In this revised business model of yours, when it comes to revenue shares and some licensing agreements, do you have some kind of minimum upfront revenue that you are guaranteed by the operators? Or is it a pure play revenue share model? Are there differential rates of revenue shares between the operators for the same product that you are marketing? That is one part of the question. Second part is a lot of your new services like your music search and other things, seem to be piggybacking on your RBT base. So is RBT going to be a major revenue driver and a significant part of your revenue mix in the next couple of years?

Arvind Rao:

Okay. So let me answer the first part of the question which is, truly when we do revenue shares with operators, we do not ask for a fixed minimum guarantee (MG).

Vikram Subramanian:

Okay.

Arvind Rao:

Okay. And there is a reason for this. One is, we believe that asking for an MG upfront, first of all creates a little bit of an adversarial situation and upraise of mistrust. And what we have seen is that, other competitors and other players who have asked for MG, what happens is, even if they do get an MG, they piss off the operator so much. The operator says, fine I'll give you an MG, but, instead of giving you 25% revenue share, I am going to give you 10% revenue share.

Vikram Subramanian:

Okay.

Arvind Rao:

So in the long run, the MG as a percentage of revenue that you make from the contract is anyway small. So you might as well go for the revenue share if you have a belief in the product.

Vikram Subramanian:

Okay.

Arvind Rao:

The main reason to go for an MG is when you don't have belief in the product. In most cases what do is, we do our research pretty thoroughly. We presell it to the customer, we have done our in-house trials and stuff so we know the product is going to work. I mean, if you look at it over a seven or eight year period that we have launched new services with operators. And if we have launched 40 or 50 new products, I cannot think of more than one or two where we have missed our revenue estimate, where we did not deliver the way we wanted.

Vikram Subramanian:

Okay.

Arvind Rao:

Our preferred modus operandi is to go for a revenue share, negotiate as high a revenue share as possible and not ask for MG.

Vikram Subramanian:

Okay.

Arvind Rao:

In the Voxmobili case, I'm happy to say that the international revenue shares in most cases that we have got, is higher than the Indian revenue shares. Not surprisingly, because after all India is probably the highest price sensitive market that we have seen in the world. Basically, its high volumes and low price.

Vikram Subramanian:

Yes.

Arvind Rao:

Which actually works to our competitive advantage relative to all our competition, because at the scale at which we are operating, we can be profitable and make money even at very low margins which serves as an entry barrier against everybody else.

Vikram Subramanian:

Okay.

Arvind Rao:

Okay. Now on the second part of your question, many of our products do piggyback on another and that's actually been our success story. It's the safest and most secure way of growing. We look at core products and we just keep extending whether it's micro billing, not enough funds (NEF), music search etc. Now we are planning to even launch a reverse RBT after AdRBT. We look at RBT as not just ring back tone, we look at RBT being a service that is 'in-call', which means when a person is calling and the call volumes are very high here. And what can we do to launch services which piggyback on those call volumes, that's the way we think about it. We don't think about ring back tone necessarily as a music service. In fact, that has what has led us to come up with AdRBT and reverse RBT and all these other variations of RBT. Because we don't think about it so myopically. In the short run, is RBT going to be a significant part of our business? Sure it is. In the long run, do we have in-house plans to de-risk it and bring it down to less than 20 - 25% of our revenue, absolutely yes?

Vikram Subramanian:

Okay. How do you propose to go about doing that?

Arvind Rao:

Two things, let's talk about organic and then inorganic. Most likely, inorganic as we expand internationally and we look at inorganic expansions, they will be much more in the area of data services, because that's what the western world and developed countries have more prevalent than ring back tones and voice portal. That's one. The second thing is the new investments that we had made. I mean, this is where we have a large mobile data products team in Bombay. We now have this building around Voxmobili and Telisma. We have our largest team in Paris. All these teams are getting much more into handset and data service oriented stuff. Like I told you, we recently launched the USSD services with two large operators in India. They are doing extremely well. Now that's a new revenue stream that just didn't exist two quarters back. Very profitable, very fast growing and that's going to help us cover up for a lot of the investments that we are making.

Vikram Subramanian:

I'm sorry. Could you please explain to me what exactly the service does?

Arvind Rao:

Yeah. Mouli, you want to take that on USSD?

Mouli Raman:

Yes. Sure. USSD is like interactive SMS. So, right now for example, you can use SMS for availing a lot of services starting from downloading a ring tone, to cricket score, to getting news and so on basically. But the problem with SMS is, it is very A-synchronous, means if you send a message to SMS code you get it, it goes into your inbox, you open it to reply and if you want to interact, it's not very easy. Whereas the USSD is available on all handsets and it's a interactive SMS.

Vikram Subramanian:

What is the full form of USSD?

Mouli Raman:

It is, Unstructured Supplementary Service Data is what its called.

Vikram Subramanian:

Okay, Thank you. Yeah. Sure. Please continue.

Mouli Raman:

So its a interactive SMS and it's available on all handsets. And we are seeing a significant uptake on that actually. So that's what it is.

Vikram Subramanian:

Okay. All right. Thank you very much.

Operator:

Thank you, sir. Next in line we have a question from Mr. Srinivas Rao from Deutsche Bank. Please go ahead, sir.

Srinivas Rao:

Hi, this is Srinivas, here. I just wanted to check with you one thing on the Telisma side as to how are we producing on the integration of Telisma to the existing operations and do we expect to replace Nuance over a period of time? And secondly, if you could just throw some light on AdRBT as to what's the initial feedback once you're done with the internal tests. Are the customers open to it in some form or the other?

Arvind Rao:

Okay. I'll just reply first and then Mouli will add to that. On the Telisma side, the primary rationale behind buying them was not so much for Nuance replacement because we're doing quite fine with the Nuance model and the cost that we are paying to Nuance is well under our margin structure. We can afford that. So that's not really the reason. The primary rationale was to accelerate time to market in developing new language models. For example, on average, if it took us say, nine to twelve months to build a new foreign language model in Indonesia with Nuance, with Telisma we can get the same thing done in about three to four months, and we can get it done at a fraction of the price and what's most important is we own the intellectual property. So that was the primary rationale for buying Telisma.

Srinivas Rao:

Okay.

Arvind Rao:

So, while that has already fructified in terms of Thai language model and Malay language model and now we have got three to four African language models under development. That's worked out really well for us. On the other hand, we have started to replace Nuance in certain of our Indian ports. So we will do that. We will do it to the extent necessary and we will do it to the extent that we can actually increase the speech recognition quality. And in certain product like M Search for example, we will use Telisma more and more and Nuance less and less. But I must tell you that is not the rationale for buying Telisma in the first place. Okay? Mouli, you want to add to that?

Mouli Raman:

I think you've covered it, Arvind.

Arvind Rao:

Sorry. And your second point Srinivas was?

Srinivas Rao:

The AdRBT, I mean how's been the initial customer feedback stroke opposition whichever way you want to look at it?

Arvind Rao:

Mouli, you want to take it?

Mouli Raman:

Yeah, I will take it. So, we have been running trial in one large operator in a circle and the basic objective of the trial is two-fold. One is to see if AdRBT is a good advertising medium. And the second one is on the consumer side, are they willing to take it up. So, we will be concluding the trial by the end of November but the initial results where we have done some initial research on whether this is a good advertisement medium or not. There the results are very encouraging. From the perspective of whether the consumer is able to spontaneously recall the ad or even if they are not able to spontaneously recall are they able to recall the ad when we aid them. And the numbers we are seeing here are much better than what we had seen on the internet as well as on the mass media. But to sum it up, we would be concluding the trail by end of November and we can share more results later.

Arvind Rao:

Yeah. But Srini, I want to just say one thing. While Mouli may say end of November, I want to treat that with caution. Because, I don't want somebody calling up on 1st of December and saying what are the results.

Srinivas Rao:

You know I appreciate it. I appreciate it completely.

Mouli Raman:

Yes.

Srinivas Rao:

But just, Is there any opposition because AdRBT probably has worked in some places, are the customers okay with it or do you think it will come with some form of revenue credits to the customers to induce them to use it.

Arvind Rao:

There will be several gratifications including some revenue discounts as well as some discounts on other products, in order to incentivize the end-user to allow AdRBT to be used on his or her tring-tring. Okay. So that's going to happen. We are testing out different gratifications to see where the response rates are highest.

Srinivas Rao:

Okay, okay.

Arvind Rao:

I think the most encouraging result that we have seen is that the recall rate for ads and stuff on AdRBT are significantly higher than other mediums.

Srinivas Rao:

Okay.

Arvind Rao:

So that tells me that we could be onto something extremely large.

Srinivas Rao:

Fair enough. Thanks Arvind. Thanks Mouli

Mouli Raman:

Thanks.

Operator:

Thank you, sir. Next in line we have a question from Mr. GV Giri from IIFL Capital. Please go ahead sir.

G.V. Giri:

Hi. You mentioned that in your content cost there is a significant amount of fixed monthly payments. What is the nature of these payments because I thought that most of it would be in next year revenues based on usage volumes? And the second is can you throw a bit more color on your deal with Aircel? Is it going to be exclusive or is it going to be along with other operator also?

Arvind Rao:

Yeah. On the first one Giri, the fixed monthly fee that we are paying is to a third-party which is giving us some services, which are used for launching a new project or a new product that is very large but will not be rolled out until next quarter. So that really is a line item that has no link to our existing revenues. And it's fixed on a monthly basis based on certain parameters and results that they have to deliver to us.

G.V. Giri:

Okay.

Arvind Rao:

The second part of your question was the Aircel. What is this Aircel thing you are talking about?

Mouli Raman:

So Aircel, there are two things that we are working on with Aircel, one is RBT and by nature it's a in-network product. Here we are exclusive. And other product that we are working with them on M-Radio and even there we are exclusive.

G.V. Giri:

Okay. Understood. Thanks.

Arvind Rao:

In fact, Giri I want to just amplify that. Many of the products that we do with customers, because of the nature in which they are deployed are inherently exclusive. That's why the way when we think about it, we think of it as real estate slot. If you get that real estate slot you have got it for life and you can grow with the operator, whether the operator has 5 million subscribers and goes to 50 million, you just piggyback and grow along with them. That's been one of our success stories which we intend to keep replicating with every new customer.

G.V. Giri:

So in all your circles with every operator in your RBT, you are an exclusive provider?

Arvind Rao:

Yeah. RBT by nature has to be exclusive. You cannot have two RBT providers in the same circle for an operator.

G.V. Giri:

Okay. Understood. Thank you. That's all I have.

Operator:

Thank you, sir. Next in line we have a question from Mr. Gaurav Malhotra from Citigroup. Please go ahead, sir.

Gaurav Malhotra:

Yeah. Thank you for the call. I'm sorry to keep going back on the guidance bit. I just have a few clarifications if you can give me. So, you think the revenue growth for the full year on a consolidated basis would grow around 50 to 55% with around 20 - 21% PAT margins? Is that correct?

Arvind Rao:

I reiterate that is not the guidance that we are giving. We are not giving out any guidance given the extenuating market circumstances. That's our internal estimate of where we see our business going.

Gaurav Malhotra:

Okay, And for the next say, two to three years, you are saying that whatever indicative numbers would be around, again 55 to 60% growth and around 20 - 21% PAT margin. Is that correct?

Arvind Rao:

That's correct. The guidance that we gave you guys earlier for a two to three year basis, that does not change. We feel fairly confident that the underlying dynamics and underlying fundamentals have not been affected in any significant manner at all. The only thing is in the short run there may be a slight dip, which is why we are saying that our internal forecast maybe slightly different in the next one or two quarters.

Other than that there is no structural change or any hiccup on a long-term basis at all in our business due to this credit crunch or liquidity crisis. I don't see that impacting our business.

Gaurav Malhotra:

Okay. Alright, thanks.

Operator:

Thank you, sir. Next in line we have a question from Mr. Sandeep Shah, from ICICI Securities please go ahead.

Sandeep Shah:

Yes. As you've mentioned that in couple of customers in India also there is some bit of a slowdown. So can you explain the behavior change from the Telco side? Is that they are likely to move from a high price VAS services to a low price VAS services. Is it like for example from a voice to a SMS?

Arvind Rao:

No, I don't think that's the change. First of all, if there is any change we were talking more about, short-term either as we said like in the case of Vodafone they have gone through a change in terms of ownership and they are just digesting all those changes. Similarly in the case of idea they have launched new networks in large cities in like Bombay.

So there are other sorts of business priorities which is why some of them may have had a slight slowdown in the way they are promoting our services. So, that has nothing to do with the price elasticity or the price sensitivity of products. Going forward, will we see sort of lower priced value added services emerge as the operators expand into the rural services? Probably yes. But at the same time these services will be complemented in other manners. For example, I use AdRBT as a classic example where the end user may end up paying much lower price or may end up paying nothing.

But the money from the same service is being paid for by advertisers. So there are other pockets that you can dip into, whether it is merchants for M-commerce, advertisers for M-advertising and AdRBT or even corporates for enterprise services. So the goal really is that as you expand into the villages, how you keep the ARPU of VAS at roughly the same by dipping into other pockets. That's the challenge that we have that's what we are working towards with all our operator customers.

Sandeep Shah:

Okay. So, we are not foreseeing any decline in our wallet share in the Indian VAS market.

Arvind Rao:

No, I don't foresee that, but the challenge of course is that, how fast we can rollout all these services like AdRBT and stuff and make sure that we can actually complement the consumer with other wallet sizes.

Sandeep Shah:

Okay. And secondly, this forecast of 50-55% growth for FY '09 in the short term, is it based on some kind of a confirmed order book, this may also change with a more challenging macro which we are witnessing.

Arvind Rao:

No, it has not got anything to do with the order book. In most cases as you know, since we are on long term contracts with customers, when we sort of do our internal forecast, we are extremely conservative in factoring in any new business that we are not sure about. So essentially a significant chunk if not the bulk of what we are giving out is from existing contracts that we have already signed and that we know that we can deliver.

Now, at the same time I want to caution you on one thing which is even with an existing customers notably in India, we are rolling of new-and-new products. So even though those are under the same master contracts it's also a question of the timing of such products as to when they come on stream and start throwing off revenue. But by-and-large, in our forecast and in our internal planning, while we obviously push as hard as we can on new customers, we don't factor that in a major manner until we feel extremely certain about it.

Sandeep Shah:

Okay. And lastly, can you give us the figure in terms of what was the revenue coming out of Bharti Airtel south zone RBT contract which we have won in the last quarter?

Arvind Rao:

Yeah. I am sorry, but I cannot give you that. That's a confidential number, its customer confidential and we cannot disclose such things. We don't disclose revenues at a customer level and more importantly at a customer and a product level, because at the end of the day its confidential it's not fair to them also.

Sandeep Shah:

Okay. Thanks and all the best.

Arvind Rao:

Okay.

Operator:

Thank you, sir. Next in line we have the question from Mr. Ankur Arora from ING Investment. Please go ahead.

Ankur Arora:

Hi. I have couple of good questions. What is the Capex you have incurred in this quarter and in the first half so far?

Rajesh Moorti :

Capex. In this quarter we have roughly spent 12 crores.

Ankur Arora:

And in the first half?

Rajesh Moorti:

25 Crores.

Ankur Arora:

25 crores. What was the guidance for the rest of the year?

Rajesh Moorti:

We started the year saying that we will spend around 20-25%, but we can clearly see some low numbers at this stage. So it should less than 20%.

Ankur Arora:

Less than 20% of the revenue.

Rajesh Moorti:

Yeah. Yeah.

Ankur Arora:

Okay. What is the cash balance in the books right now?

Rajesh Moorti:

Around 250 crores.

Ankur Arora:

While I understand that you acquired it for the technology and not for the revenue, what is the balance sheet size of that company?

Arvind Rao:

Its not really relevant here.

Rajesh Moorti:

Yeah, correct. I just wanted to understand, where you are coming from?

Ankur Arora:

Alright. Wanted to understand what kind of goodwill you're booking on your books because of that?

Rajesh Moorti:

Okay. The goodwill that we have booked on that is around 70 crores.

Ankur Arora:

70 crores.

Rajesh Moorti:

Yeah.

Ankur Arora:

All right thank you very much.

Rajesh Moorti:

Yes.

Operator:

Okay, we have a next question from Ms. Neha from Angel Broking. Please go ahead, ma'am.

Neha Idnani:

Hi. Good morning. One of the questions that I have is right now the products that we have launched, they are all if you see from the consumer's point of view, they are all

discretionary spends. Am I right on saying that? And if this is the case then wouldn't we kind of see a slowdown in the Indian markets?

Arvind Rao:

Yeah. I'll just say one thing, it's actually very strange that you and I may think that it is discretionary, but for many people it's actually not discretionary. It has become a lifestyle. It is not an entertainment service. It has become a life style statement.

Neha Idnani:

Okay.

Arvind Rao:

Just to give you an example, if I look at my Ring back tone, I may not have changed it for a year. But my driver changes it every week.

Neha Idnani:

Okay.

Arvind Rao:

So it is not really linked and the other thing is also, we are seeing significant take off of our services even in C and D cities and in the rural areas.

Neha Idnani:

Okay.

Mouli Raman:

And Just to add to that Arvind, if you look at the past trends, typically the consumer cuts back on large expense items.

Neha Idnani:

Yeah.

Mouli Raman:

And they spend more on entertainment, actually. That's the past trends basically. Probably it will continue.

Arvind Rao:

Yeah, and you know, a couple of things, one is it's well known that in times of recession and stuff, sales of movie tickets go through the roof.

Neha Idnani:

Right.

Arvind Rao:

And it's also, think about it, people are buying our services in very small bite sizes, Rs.1 here, Rs.2 here, Rs.6 here Rs.5 there.

Neha Idnani:

Okay.

Arvind Rao:

They don't really feel the pinch.

Neha Idnani:

Okay.

Arvind Rao:

And we have not seen any slowdown in the consumption of our services at all.

Neha Idnani:

Okay. Alright, sir. And another thing is, your revenue, as in the revenue share in the operators revenues for VAS services, currently roughly remains at 8 to 9%, which is what the historical trend has been. So, are we like growing at the same pace as these operators are growing in terms voice, and if that's the case, then it couldn't be like a 65% growth?

Arvind Rao:

Yeah. See, a couple of things, first of all is that, our pure intention is that we want to increase our share and the percentage of value added services that we do with each one of our customers.

Neha Idnani:

Right.

Arvind Rao:

Okay. Now, clearly, when they look at value added services, they count other things in which we do not participate. For example, data roaming, internet access charges, person to person SMS, they include all these large items as value added services.

Neha Idnani:

Okay.

Arvind Rao:

We don't participate in those markets. That's not our addressable market.

Neha Idnani:

Okay.

Arvind Rao:

So, whenever you say an operator is growing at x percentage, you have to factor all these line items out.

Neha Idnani:

Okay.

Arvind Rao:

Look at the growth under addressable market rather than the overall VAS market.

Neha Idnani:

Okay. Alright.

Arvind Rao:

That being said, we are a key driver. Actually a lot of the growth in many of these operators value added services are actually coming out of products that we have conceived, we have taken to them. We are trying to grow the pie even more than they are.

Neha Idnani:

Right.

Arvind Rao:

Right. So we do track it at a customer level to make sure that we are not losing share that we are actually maintaining our share or growing into each one of them.

Neha Idnani:

Okay. Sir, another question that I had was basically from what I understand is that your entire plan of maintaining margins will kind of compromise on the investment that you do in that particular year, but I mean from a strategic point of view, would it be right in assuming that you would look at the market share that you have with each operator and accordingly vary the investment. And if that's the case, then there might be a time where our margins kind of go for a toss. Because we might need to innovate to bring in a new product to maintain the market share, and that might not be possible by reducing the cash that you are going to kind of invest into the product.

Arvind Rao:

Yeah. But that would happen, if we were increasing market share at the expense of our margins. Okay, so just to use an extreme example, if an operator came to us and said, hey we want to launch this new service with you but by the way we are going to pay you only, 10 Rs. for it.

Neha Idnani:

Right.

Arvind Rao:

Are we going to do it? No.

Neha Idnani:

Okay.

Arvind Rao:

So, we are not going to increase market shares based on economics which are unattractive and not mutually fair.

Neha Idnani:

Okay.

Arvind Rao:

Okay. So its not market share at any cost. I want to be very clear about that.

Neha Idnani:

Sir, right now we have say two, three products, which are like in their mature stages. So, we are still investing a lot into new products, which would come on to the anvil say, in the next two to three years, so in that case right now I am assuming that our investments would be way higher than revenue that's kind of coming from these mature products. So I mean, we can cut down on investments right now. Because the cash flow from the products aren't that high. So how are we kind of looking at that?

Arvind Rao:

No. As I have said before, it's like the analogy I would use is how heavily do you want to step on the accelerator of your car.

Neha Idnani:

Okay.

Arvind Rao:

Okay. If we took our foot off the accelerator and we said we are not going to invest for the future at all. We are just going to milk our mature products. We can take PAT margins up to 40, 45, 50%.

Neha Idnani:

Right.

Arvind Rao:

Right. No big deal.

Neha Idnani:

Okay, okay.

Arvind Rao:

But at the same time, basically you are going to end up losing market share, losing thought leadership and you could still go on for another four to five years.

Neha Idnani:

Right.

Arvind Rao:

Over a 10 year perspective we are not building a company that is solid and a market leader.

Neha Idnani:

Okay.

Arvind Rao:

The way we look at it as I said before. Remember the analogy I used.

Neha Idnani:

Yeah.

Arvind Rao:

Since, value added services is nothing less than the internet in terms of size and potential.

Neha Idnani:

Okay.

Arvind Rao:

And we definitely want to achieve a status equal to, the likes of Google site on the internet at a global level.

Neha Idnani:

Okay.

Arvind Rao:

We will continue investing to achieve that level of stature and leadership on a global level.

Neha Idnani:

All right. Okay, sir one question is how would you kind of moderate the investment? Do we have employees on a fixed basis or a project basis, So we can kind of just cut them out. If we need to lower down the investment?

Arvind Rao:

Well, if you wanted to lower down the investment the simplest way to do is to cut manpower and in a major manner.

Neha Idnani:

Right.

Arvind Rao:

Right. So cutting manpower is not that difficult. That's one thing. The second thing is we have to understand that for most Senior Managers in our company and staff all the way down.

Neha Idnani:

Yeah.

Arvind Rao:

There is fairly significant variable component which is based on performance.

Neha Idnani:

Okay.

Arvind Rao:

So you know, at the highest level it's extremely high. A north of 50% is paid out on a variable basis.

Neha Idnani:

Okay.

Arvind Rao:

So if the results don't come in these people don't get paid. So that's the first way you cut back on your expenses. Second way is if you think that the products are going nowhere and you want to cut it off, you need to redeploy your source or you're going to have to terminate them.

Neha Idnani:

Okay. That's all from me. Thank you very much.

Arvind Rao:

Thank you.

Operator:

Thank you, ma'am. Next in line we have a question from Mr. Himanshu Shah from Religare. Please go ahead sir.

Himanshu Shah:

Hello.

Arvind Rao:

Hi.

Himanshu Shah:

Hi. Sir, actually you on your website and right now also you said that you handle around 12.5 billion calls a month. So basically are all these calls chargeable and what would be our share, in this particular calls, just or how should we interpret these numbers with the revenue that we generate?

Arvind Rao:

Yeah. The calls cannot be linked to the revenue because, you know, it's not on a per call basis.

Himanshu Shah:

Okay.

Arvind Rao:

So the point I want to make to you on calls this is the key thing that's the reason we highlight on our website.

Himanshu Shah:

Okay.

Arvind Rao:

This reflects the technical capability and the operating scale at which we are operating. Now when you work with a telecom operator the key thing that they look for is partners whose technology is proven to operate at extremely high scale and whose processes and teams can handle those large volumes.

Himanshu Shah:

Okay.

Arvind Rao:

So when we go and talk to operators and we compete both in India and overseas with other companies, we go and say that listen, this is a scale that which we are operating and you know, your nearest competitor is operating at on tenth-one or one fiftieth that scale. You know, the operator, it's night and day situation, so as the number is increasing, we are finding that our ability to sell and close business is actually getting stronger and stronger.

Himanshu Shah:

Okay.

Arvind Rao:

But it's not linked to revenue, the reason we publish that is not to link with revenue but to show our operating scale and capacities.

Himanshu Shah:

Fine. Sir, Thank you.

Operator:

Thank you, sir. Next in line we have a question from Mr. Ajay Nandanwar from Indea Capital. Please go ahead, sir.

Ajay Nandanwar:

Good afternoon. I have a question about the revenue share on RBT and Voice Portal. Has there been any change over last quarter or six months ago?

Arvind Rao:

No, we have not seen any changes in any material manner. When we negotiate with each operator, new operator basically it's on a case-by-case negotiated basis.

We don't disclose pricing at the product level, but there has been no change.

Ajay Nandanwar:

Okay. Also if any material replacements of other VAS providers in existing operators?

Arvind Rao:

No, again I would not like to comment on this because its happening all the time, but we don't want to specify in operator X we replaced competitor A. In reality, we continue to do that on both our core products whether its M Radio or its Voice Portal or its ring back tone, we are continuing to do that in both in overseas market as well as here. And as Mouli talked about, we have won two large RBT replacements, where we are replacing an international competitor and this is largely based on the results that we have been able to actually show which are convincing. For example in India when we have done our replacement, we had tremendous results, revenues were up by 40-50%, downloads were up 40-50%. Overall the results are extremely positive so that's help the case. But we don't want to go and publish results either at a customer level or at a competitor level.

Ajay Nandanwar:

Okay. Also question about your margin or the guidance, from what you are saying it seems like most of your costs are fixed cost and when your revenues start up form new projects is less in your control. In that kind of scenario how do you plan for margins? How when you give 20-25% margin guidance how do you assess that?

Arvind Rao:

As I said before, at any one point we have portfolio of products that are relatively mature and throwing off cash versus products and services in which we are investing.

Ajay Nandanwar:

Okay.

Arvind Rao:

Now the cost, here it depends on whether you believe employee cost are fixed or not. I mean at one extreme one could say that employee costs are really not fixed they are variable, right.

Ajay Nandanwar:

Sure.

Arvind Rao:

So, while we don't like to hire and fire and churn a lot of people and I am happy to say that we have one of the lowest attrition rates in the industry in spite of being in Bangalore and all where the attrition rates are very high. On the other hand we treat our employees with great respect and whenever or the rare instances where the products are discontinued, we try to redeploy the employees on other products, because the skill sets to some extent are fungible.

So, the costs that are really fixed in business is the hardware that is deployed within an operator, which is largely linked to revenues. So although it's fixed cost, it doesn't really affect us that much. And the only other fixed cost that we have in reality is, you know, whatever cost we have associated with facilities in terms of leases, long term lease agreements.

Ajay Nandanwar:

Sure. Great, thanks so much.

Operator:

Thank you, sir.

Arvind Rao:

Okay. Let's take a last question

Operator:

Okay. Fine, sir. The last question comes from Mr. Shreyash Devalkar from IDFC AMC. Please go ahead, sir.

Shreyash Devalkar :

Hello. My question is about your international acquisition strategy. So currently there are actually corrections in some valuations, so whether this correction in valuation in your space are commensurate to the slow down which you are seeing in the uptake of your product. And further with 200 crores what is the acquisition size you are looking at and what is the time line, if you are looking at some acquisitions in FY09 and which geographies?

Arvind Rao:

Yeah. There are couple of things; one is that at a global level, have we seen a reduction in valuation on the M&A potential targets that we are investigating, absolutely yes, there is no doubt. On the discussions that we've had and are ongoing have definitely resulted in cases where we have gone back to people and made offers at substantially lower prices than what we may have done, you know, six to nine months ago.

On the other hand given the market conditions we are also proceeding extremely cautiously in terms of how we use our cash proceeds. Yes we have 200 crores and we have probably even debt lines that we haven't drawn down on, but on the other hand its very easy to use the cash, you know, just because we have to use it and we don't think of it that way. So we will continue to looking for extremely good M&A target and we are already in discussion with several of them.

The question is many of targets that we thought were unattractive because of their prices were way out of line, have actually now become quite attractive due to the increased negotiating power and the valuations that we can try and close deals at. But it still doesn't change the fundamental basis for the acquisition. Which is, just because the company is cheap it doesn't mean that we are going to go and buy it, just because we can afford to do it, because, there is a huge integration effort, cost required.

So we are continuing the same, there has been no change in our M&A strategy, which is, as I said before, it's a three prong strategy. One is for products, second is for markets and the third is for raw technology. So clearly Voxmobili falls in to the category of products- they had fabulous products and clearly Talisma falls into the category of technology- they have great technology that you can capitalize on and leverage. We are looking at market access acquisitions to enter areas that are complex to operate in or where you need specialized skills to operate in, whether its Eastern Europe or Africa or Latin America or China. So because over there it's difficult and you could accelerate time to market

significantly through an acquisition. But once again we have to be extremely careful because these markets there is a lot of junk out there.

Sandhya Gupta:

Based on our strategy for M&A, in addition to targeting products and Technology Companies, we also look at geographical entry. We will see as per geography specific what is required in that geography and then pick it up.

Shreyash Devalkar :

Okay, thank you very much.

Operator:

Thank you, sir.

Arvind Rao:

Okay.

Operator:

So would you like to end the session?

Arvind Rao:

Yeah, let's end it. So thank you very much, I just wanted to thank everybody for being on the call. As I said before in spite of the extenuating circumstances, you know, we are very happy that almost all of our loyal large investors and shareholders have stayed with us through this course and this market correction and, we are fairly confident about the business on the long term and executing and delivering the results that we have promised you.

So once again looking forward to, you know, in continuing growing the business and having all of you along. Thank you very much.