

# **OnMobile Global Limited**

**Investor Conference Call – Q3**

**29 Jan 2010**

**Operator:**

Good afternoon, everyone. Thank you for standing by. Welcome to the OnMobile investors conference call for quarter 3 results presented by Mr. Arvind Rao, the CEO. At this time, all participants are in a 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, you will be instructed to press some keys and please be advised that this conference is being recorded today. I would like to hand over the conference to Mr. Rao. Over to you, sir.

**Arvind Rao:**

Thank you very much and a very good afternoon and welcome to all our investors, shareholders as well as potential investors, and potential shareholders. We would like to present the results for the quarter ended 31<sup>st</sup> December 2009. Sanjay Uppal, our COO, will walk you through the material developments in customers and product. And after that Rajesh Moorti, our CFO, will walk through the actual results. Before we get into that I would just like to give a little bit of background context on trends in the Indian telecom sector because I think you need to look at the backdrop in context to our results. Fundamentally, we have a business which has both the India component and an international component. The international component has done extremely well and continues to do well with all our rollouts with the Vodafone, Telefonica and other customers. On the Indian side, as you know, the Indian telecom sector is going through a bit of a hard time this fiscal year and obviously that has implications on the VAS revenues. If you look at the announced results for both Airtel and Idea, if we back out the person-to-person SMS VAS revenues, there is hardly any growth in the remaining VAS revenues on a quarter-to-quarter basis. When you compare that with the 7.5% sequential growth in OnMobile results, it is pretty impressive that we have been able to achieve this growth in spite of the overall stagnations in the Indian telecom market. So I think it is important to view our results in the perspective of what is happening in the overall VAS sector. The only other observation I would like to make is that we continue to see, what I call, as almost unprecedented demand from customers for more and more products, which could enhance the revenues on that VAS side. The attention at the senior management level in almost all telcos, both in India and overseas, towards that continues to grow unabated. We have not seen any slowdown in that. In fact, we are seeing acceleration and an increased pressure from all customers to roll out products faster and to ramp up additional features, which will increase the revenues from our existing products. So that is a very, you know, positive trend which is the backdrop to our results. So with that I would like to hand it over to Sanjay Uppal, our COO, to walk you through the material new developments in the last third quarter in terms of customers and products.

**Sanjay Uppal:** Thank you, Arvind, and welcome to everybody on the call. So just leading up from what Arvind was saying about the continuous demand from customers to have more products. Firstly, on the RBT side, we were the first to launch RBT in conjunction with social networking at an Indian operator. So this is really looking at how to enhance the provisioning of an RBT user by utilizing their social information. And I am happy to say that while these are early results,

we have shown a successful sign of trade of about four times what we would get compared to not using the social information. Secondly, we went live with our RBT services in one of the leading operators in the metro region in India and here the significant development was that we have replaced multinational competitor that has provided RBT services on a worldwide basis and we have done that replacement in an extremely short timeframe, in fact in less than two weeks.

Now in the APAC region, moving on to our next music and entertainment product that is music radio, we have won business in Malaysia, in Indonesia, and in Sri Lanka this last quarter. And we have also launched services at a leading operator in Bangladesh. Now when you look at our music radio product and you look at the business that we have won in these countries as well as the existing business in the Asia-Pacific region, that puts us, according to us, as the number one provider for music radio in this region.

Now when you look at our social networking as well as our data products, we have extended our reach for our phone backup service and this is also when we have added the leading operator in Bangladesh for that particular service. The last time that we were on the call, we spoke about the progress that we have made from taking phone backup to a phonebook product where the addresses of a user are stored inside the telecom network and we make use of those addresses to reach out to more and more users within that network. And that next generation product we called "Phonebook 2.0." Now what we have done with that in this last quarter is we took our Phonebook 2.0 technology and we will deploy it in the Orange ON Network. The Orange ON Network is a very forward looking service that Orange has provided and that forward looking service allows users to connect up again with people within their social media or within their social network and allows them to use communication, use entertainment, use mapping to be able to do that connection. And this service was launched in a beta phase this last quarter and the service is expected to go live this quarter. Now, in fact, we have provided you with a YouTube video url where you can take a preview of what the service is going to look like. The underlying technology for the service comes from our Phonebook 2.0 product.

Now on Telefonica, we are pleased to say that the deployments are on track. We are seeing strong support from all the markets for OnMobile products. As you know, we have made several physical visits plus we are setting up our infrastructure and our marketing departments within that region. And the first set, of course, is expected to go live by the end of this quarter beginning of the next one, that is by April 2010. Now looking at from the handset perspective, we have signed a contract with a large handset manufacturer in India and this is to invest some of our technology in their handsets platforms so that they can roll out their services with existing operators. So from a customer standpoint both with handsets manufacturers as well as, as you can see on a worldwide basis with operators we have done a fair amount in this last quarter across our three product lines.

Now moving onto the products side, I just want to delve a little bit in more detail about the nexus between RBT and social networking. The first part of what I talked about on the customers' side, we have already rolled out. We are just to

add the intelligence on the social networking side of the user and use that for increasing RBT penetration. The second part of what we have done is to integrate it with an established social network and using an application within the social network allowing the user to set their own RBT. This is UGC RBT and this is the world's first launch of an integration of RBT with social networking. We believe that there is going to be further development in this area and OnMobile is at the forefront of this technology. Now, we have launched the next version of our OnMobile corporate RBT product. For companies or enterprises want to set RBT for their employees, either a section of their employees or all of their employees and we have added further flexibility over here based on groups of employees with the corporate RBT product.

Now, on the OnMobile phone back-up 2.0 side, the one that I mentioned that we have deployed for the Orange ON network, we have extended the capability there. We have also included not just the handset clients but we have also included WAP capability from the WAP as well as from WAP iphone and you can see the same view that you can see of the Orange ON social media connections that you have.

Now, moving on to infrastructure component, which is our content management system. Let us just take a step back. What we have done with our content management system is we are making an open platform to a content provider who can deploy and upload their content and they can get a transparent workflow process, so they can see which content has got uploaded, how that content is proceeding along in the workflow and how that content eventually is being utilized by the operators or whoever is the downstream consumer of that content. This we believe will really increase the level of their usefulness and transparency for all of the content providers. And the early results we are getting from our content providers today primarily based in India is a very high level of excitement that this is the first time where technology coming in and providing that level of transparency. In the past, that has not been available in this particular space.

On the last call, we spoke about our 'Universal Messaging Platform' (UMP) which was launched in seven deployments last quarter and what we have done here is adding new application. This is an intelligent OBD application. The intelligence really comes from mining what consumers do based on their demographics and then looking at that to select what kind of message or gratification or positioning that particular OBD will do for that group of users. So this is something that we have added on our UMP. One of the things that we are doing with our technology and product is to provide the platform. We are not just here to innovate but also help others to innovate. So the companies out there can develop products on top of our platform and hence gain entry into the operators that we already have a relationship with. This we have called previously the OnMobile Developer Network and what we have done in the last quarter is sign up three additional partners for the OnMobile developer network. One of whom called Voice Tap has actually made it to the top 20 finalists in the upcoming event at 3GSM in Barcelona. So we believe that we are an attractive platform for the third parties for the product vendors to come in and deploy their applications and services on top of the OnMobile Developer Network.

On the speech front, we have launched the OnMobile 'Teliphone' product on speech recognition software that runs on the client server configurations for the iphone. Now, this is a vertically oriented solution and the first vertical that we are going after is Yellow Pages. So we are looking at Yellow Pages services that customers out there can deploy with so that if you say the name of something that you are looking for, then through the iphone you can get an answer from the Yellow Pages. That will be done all through speech recognition. This, we believe, will significantly cut down on the amount of searches that people have to do to get to that right level of information from the Yellow Pages.

And last but not the least, we have extended our OnMobile 'Search and Discovery' product and this is through SMS free phone search. So any comment, you can type in any word you want and you will get a high accuracy result that is based on the services that the operator has provided for that particular search. For example, if you are using Airtel network, then you can type in 'flight' and what you will get back is not just the set of services that are related to what Airtel provides on flight information but any other service that's out there. For example, let me tell you when you are looking for a flight from Delhi to Bombay and then you can do a further search to find out about this flight information or flight purchase that you are interested in. So this is a free phone search. The first results that you will get back might be the exact hit of what you are looking for but also it will give you a further option to do a grill down. And this part of search and discovery is the SMS part, which is one component of what we are doing from a search perspective. The other components are music search as well as web-based search that we are looking at. So with this, I want to turn it back to Arvind.

**Arvind Rao:** Thanks, Sanjay. So very quickly, point number 4, on the talking points we have distributed, in terms of organization we continue to expand our footprint overseas. We have registered new offices in Dubai in the Middle East and also in Miami in the U.S. and in Mexico City. The later two offices are very strategic to us because they open up the entire Latin America and Central America and the North American front for us. So far we have been operating out of our European office but now we have people onsite. Today we already have about 15 to 20 people who are based onsite in America and that team is going to grow rapidly as part of our Telefonica Latin American deployments. On the awards and recognition front, for the third time in a row we have won the Deloitte Technology Fast 50 India Award. And we have also won the Frost & Sullivan Market Share Leadership Award for mobile VAS for 2009. So that continues to go in line with recognition of our leadership in this industry, which we have been on the forefront for the last several years. More importantly, the last thing before getting into the financials is to look at what we call as the operational or non-financial KPIs because we look at this as sort of leading indicators rather than financial numbers, which in my mind are leading indicators of future performance. So if you look at some of the key measures whether it is subscriber reach or unique users, we continue to have traction in spite of industry market trends. So if I look at, for example, unique users or active RBT users, we continue to show growth, which is slightly in excess of industry trends and

industry average growth rates. And more importantly, given the way we are going with Telefonica and Latin America, in the next fiscal year we are on track to pass a billion subscribers in terms of market reach. Just to put it in context, if you look at leading operators around the world whether it's Softbank, Verizon, Vodafone, that alliance of all of them is less than a billion. So if you really look at the market power that we have or that we soon will have, we will be one of the largest sort of virtual Telcos if you want to think about it that way in terms of Value Added Services reach.

So with that, I would like to turn it over to, Rajesh Moorti, our CFO, to walk you through the financials and then we can open up for the Q&A.

**Rajesh Moorti:** Thanks, Arvind, and good afternoon everyone. The quarter three numbers that we just published earlier today show a very healthy growth in terms both revenue as well as the PAT. Third quarter numbers are Rs. 115 crores in revenue, around Rs. 23 crores in EBITDA, and Rs. 13.2 crores in PAT. On a YTD December basis, the numbers are total revenue Rs. 331 crores, EBITDA is Rs. 61 crores and PAT of Rs. 32 crores. If you look at the quarter 3 performance per se, as you know we had divested some stake in our subsidiary company Verse in quarter 2 and therefore the numbers are not strictly comparable. On a like-for-like basis, the revenue growth is actually around 9.5% with all the business units showing a pretty good growth. And on a PAT basis, there is a sequential growth of around 33.5%. Now 33.5% is on the reported number. On like-for-like, it will be much higher. If you look at our core business performance versus the investment that we have been disclosing over the last three quarters, our core business has shown revenue as well as margin improvement. We had a quarter with Opex pretty much under control. The depreciation number in this quarter may look higher but if you recollect we had a change of depreciation policy last quarter where we had got a benefit of two quarters and now this is a stable depreciation number that we can look at going forward. And in the previous quarter we also had other income from sale of investment in Verse. If you look at the investment side, the amount of investment has come down compared to the previous quarter. It is now around 9.4 crores but that's mainly because of the foreign exchange movement. We had taken a hit of roughly Rs. 3.5 crores in quarter 2 and in quarter 3 we had a movement in the opposite direction of roughly over Rs. 3 crores. But if you really exclude the foreign exchange movement, the investment continues to grow rapidly and this is to cover our investments in the Latin American market, in the African and the Eastern markets as well as the new operations in India. The other point that I want to highlight here is that our operating cash flow continues to be pretty healthy. If you look at YTD cash flow, we have that around 80% plus of the cash profit for the nine months period and that's one area of focus for us. So with that, I will open the session for Q&A.

**Moderator:** Thank you, sir. At this time, if you wish to ask a question, please press "01" on your telephone keypad and wait for your name to be announced. I repeat, please press "01" to ask a question and "02" to cancel your request. Our first question comes from Gaurav Malhotra from CitiGroup, Mumbai.

**Gaurav Malhotra:** Thanks for the opportunity for the question. I just had two, three questions. One, Arvind, it's more macro. The kind of competition which one is seeing among the operators particularly in India, are you seeing that the reduced profitability in voice is in any way impacting your revenue share agreements or maybe the pricing of the VAS offerings by the operators themselves, if you can just highlight something on that front?

**Arvind Rao:** Yes. I think, clearly in this environment, since the revenue growth has either stalled or led in a de-growth mode, everybody is looking cost as a way of either managing or increasing their margins. Sure, operators are looking at every cost line item. We have had discussions with some of them. So far, very honestly the focus has been much more on how do we grow the revenue pie rather than on 'let's have a discussion around reducing your revenue share'. The reason that is so is because at the scale at which we are operating, we are already at low revenue shares compared to where we were two or three years ago. So the pressure to sort of take that even further down. People are realizing that because the whole beauty of our revenue share agreement is that it's like a joint venture or it's like a marriage. You don't keep revisiting it everyday. You try to improve the overall topline rather than trying to squeeze from your partner. We have not seen anybody come and talk to us or insist on a change in the revenue share at this stage. Those discussions happened about two or three years ago, even when we did it proactively in terms of scale economies and volume discounts and that sort of transparency and fair behavior. We are not seeing any of this real revenue share pricing pressure.

**Gaurav Malhotra:** There are other more micro questions. If you can just highlight as to which countries are under the Telefonica brand? Would you be initially launching them, maybe a couple of main products, which you will be launching in those countries?

**Arvind Rao:** It's good you asked this question because one point I wanted to make is that, I think on the previous investor call or one before that, we had told investors that we would be giving you more insight into the whole Telefonica project and cash flows and Capex requirements and all that. Now, clearly this has to do a lot with the Customer information, the information is extremely sensitive and customer-confidential. So we went back and discussed it with our Telefonica working team as well. And they are extremely uncomfortable with sharing details in advance of the launches for competitive reasons. You will understand that in a market like that if you are going to launch, let's say RBT in Venezuela, you don't want to apprise your competition that you are going to launch it in April or you are going to launch it in May. So they have asked us to please desist from giving out these details until the service is live. So I understand your request but if you would just respect that, I would like to sort of restrict it to saying that the first two or three operators in the Telefonica system will be going live by April, this year and we on track to deliver that. And then after that almost every month, there will be one operator going live such that we can complete the overall 13 countries rollout before March 31<sup>st</sup> 2011. I am just asking for you to just respect that customer confidentiality.

**Gaurav Malhotra:** Yes. I have just a couple of questions if I may. One is on your international revenues. That in fact seems to have grown slower versus your Indian revenues. The growth for the Indian revenue is like 7.5%. If I just do a simple math, the overseas revenues have grown by 2.5%. What is the reason for this or am I getting it wrong?

**Rajesh Moorti:** Overall, if you look at our revenue mix between the domestic and international, certainly it is moving in favour of the international revenue when you see overall the last three quarters. Fourth quarter, we had 78% of the revenue from international market, this quarter is 73 and last quarter 71. That means our international business has now become more like the 30% of the total revenue as against 22% in the beginning of the year. So if you look at it how it was quarter-on-quarter that base has changed quite a bit in the second quarter itself. So it is not that the international business has slowed down. International business is on a much higher basis.

**Arvind Rao:** I will tell you. It comes back to sequential quarter-to-quarter growth. It is not the right basis for looking at international because the base is low. So it is very lumpy. When your revenue base is small even adding one or two customers here and there gives you a spike in terms of the base, which is what's happening on the international front. Our growth is largely coming from new customer launches rather than the large India's base where it is more of enhancing the market penetration and launching new products. So numerically you are correct but in terms of reading insight into that I won't put any weight on that.

**Gaurav Malhotra:** Rajesh, you just mentioned that 30% of your revenues are from international but as per the data which has been given to us around 90 crore was Indian revenues and your total revenues being 115 crore. So that would give to 26 crore to the international. That is giving us only 22%, how should we be looking the 30% number?

**Rajesh Moorti:** If you look at the talking point that we have released, 82 crore of our revenue in the 3<sup>rd</sup> quarter is domestic and 33 crore is international.

**Gaurav Malhotra:** Okay. Just last question. Any update on the Vodafone deal with any other country, which you have gone live with or something on those lines?

**Arvind Rao:** No. As of now, the only two that are live as of today is Romania and South Africa Vodacom. The rest of them are in the process of either advanced negotiations or deployments. So again as I said that we cannot disclose these names before you go live for competitive reasons. As soon as they go live, we will be disclosing it.

**Gaurav Malhotra:** Okay. Thank you so much.

**Moderator:** Thank you. Our next question is from Mr. Srinivas Rao from Deutsche Bank, Mumbai.

**Srinivas Rao:** Thanks for giving the opportunity. I have two to three questions to ask. First, any light you could throw on the standalone revenue growth numbers which seems to be, as you had also mentioned, fairly strong relative to what the telecom sector seems to be doing? So any colour on how that is happening and will we continue to kind of exceed that kind of a trend for the next let's say one - one and half years?

**Rajesh Moorti:** Okay. I would strongly urge not to look at the numbers on a standalone to consolidated basis because we do have a lot of inter-company transactions. It is better to always look at consolidated numbers. But as I have mentioned at the beginning of the call that there has been growth in all the segments. So whether it is in India or it is in APC or it is in Europe or other markets, there has been growth across all the business segments.

**Srinivas Rao:** And secondly, another question is, we see that the margins have improved quite dramatically and based on the split it's on account of the Opex having gone down in your newer operations. Will that be a fair assessment?

**Rajesh Moorti:** There has been a one-time movement because of exchange rate fluctuation but if you look at the core business where we have been able to contain our cost and coupled by the healthy revenue growth, that had certainly improved the EBITDA margin.

**Srinivas Rao:** And just one more question. This is again probably for Arvind or Sanjay can take. Are you increasing the share of wallet within the Indian Telecom customers or any colour on the newer launches by the newer players, which are happening? Are you signed up with any of them, if you can disclose?

**Arvind Rao:** I think on the share front, that's not something that we disclose or talk about. The question is we don't manage actively to share within customer because that goes up and down and so long as the overall trend line is either the same or it's increasing, it's okay. In terms of new customers, you mean by new operators or you mean new people or what?

**Srinivas Rao:** Yes. The newer people who have just launched or slated to launch in the next half year.

**Sanjay Uppal:** I think even last quarter we announced that we had one contract with one of the newer operators and we are pretty close to getting another one this quarter. And just one more thing I wanted to say about share of the wallet, what we are seeing is that there is no difference in propensity to pay for our services in India. So I think that is something that we do look at whereas Arvind was saying we don't really calculate how much of the share of the wallet, whether that has gone up or down.

**Srinivas Rao:** Thanks a lot. And thank you for taking my questions.

**Moderator:** Thank you. Our next question is from, Mr. G.V. Giri from IIFL Capital, Mumbai.

**G.V. Giri:** Thanks for the opportunity. Congratulations on your numbers. Number one, your content cost had been stable at 19% for the last couple of quarters. What's the outlook? Number two, you talked about social RBT. Is it with one operator within that network or it will be more than one operator or between operators? Then thirdly, you spoke about stopping an MNC providing a VAS out of your Customer. Can you tell us a little bit more about that? And number four, on page one your India revenue is noted as 89 crore and on page four it is 82 crore. So which number should we be looking at?

**Rajesh Moorti:** I will take the numbers question first. When you look at our stand-alone company results, it also has a legal entity number, it also has international revenue from the Asia Pacific market. So the page fourth numbers that you see, there is a clear split more from a regional perspective and not a legal entity perspective. So 82 crore is the India revenue.

**G.V. Giri:** Okay.

**Arvind Rao:** Now coming back to your question on content cost, a while back we had noticed that our content cost was rising and that was affecting our overall gross margin. So we have taken measures to sort of contain that growth which we have succeeded in stabilizing. The next step is actually to reduce that percentage going forward and we have very defined initiatives by which we hope over the next three-four quarters, we should be able to see a downward growth in content cost rather than the upward growth that was affecting us in the past few quarters. So I think that is a very positive sign from a gross margin standpoint for our place.

**Sanjay Uppal:** On the social RBT, your question was whether this was a one operator to begin with and more than one operator? So initially we always launch with one operator. We find out the things in the system. But the intent on social RBT is really not just for multi-operator but also to go for multi-social network so that we can link up with all the social networks, I mean all the relevant ones of course, and you can get as much into each of the operators because when you get this network effect, when you get more people in, certainly when you call somebody you don't first think about whether that person is on a particular network. You just call the person. So based on that, the more number of people that are there within the social RBT, the more benefit there will be for the end user, the more benefit there will be for the operator, and more benefit for OnMobile as well.

Second part of your question was, "Can you give some more colour about we have done in replacing an MNC provider of RBT?" Now I am not going to mention the name but what we do here is we look at or rather the operator looks at who has the focus in this stake. We are fully focused 100% on Value Added Services. The MNC that came in, you know, this happens to be perhaps the smaller portion of the product and services that they are providing. As a

consequence of our number one focus on Value Added Services, the result that we can show to the operator in terms of penetration, in terms how users really like the system, typically it tends to be higher than someone who is not fully focused on Value Added Services. So these are some of the reasons why we are able to take out someone who despite being a very large company, despite being a multinational, we are able to do it without technology.

The fact is that we have replaced every major RBT vendor at least in one place somewhere in the world globe.

**Arvind Rao:** I think without doubt, I mean because we have understanding with customers and I have no qualms in saying this that we are getting globally in terms of replacement. As well as the validation from the very large Vodafone and Telefonica contract, there is no doubt in my mind that both from a product features and then execution capabilities in terms of proven track record of showing customer revenues, we have won the RBT battle at a global level against other existing RBT providers.

**G.V. Giri:** Sure. I understand. Thanks a lot.

**Arvind Rao:** We will continue the trend of going after each one of them and hopefully replacing them in every customer around the world.

**G.V. Giri:** Sure. It sounds good. Thanks a lot.

**Moderator:** Next question comes from Sameer Naringrekar from BNP Paribas, Mumbai.

**Sameer Naringrekar:** Good afternoon, Arvind. Just one question on Advertisement Ring Back Tones. What is the progress happening with Vodafone in terms of deploying AdRBT? And also in terms of like we are seeing some sort of pressure in terms of adding incremental RBT subscribers. Why are operators like Vodafone not going aggressively after AdRBT to kind of subsidize the rates since the prepaid balance is pretty much the issue that we have been kind of encountering in adding new subscribers? And the second followup question is related to... If you are considering acquisitions, any specific areas that you are looking at?

**Arvind Rao:** Okay. So let me attend to the AdRBT question first. AdRBT, as we have said before, one is that technically complex product rollout and we have invested probably about, just in terms of hardware and software alone, probably in the range of 15 to 20 crore at least in terms of rolling it out in Vodafone India. The hope is that this technology and service can actually transform what we would call as an old world industry, which is a traditional advertising industry. Now when you try to take on something like that you have to be very careful about consumer backlash, about consumer sentiment, about the core business. So any operator attempting this is going to do it very gently and when an operator says very gently it could be two quarters, three quarters, one year, two years. So we are just diligently pursuing it with them. I think last time in the end of last

quarter when we reported we said we had about 2.5-3 Lac users. Today we have crossed the half a million mark. So there has been a very good progress in AdRBT subscriber base growth. It is still relatively small compared to the overall RBT base in Vodafone India. But again the needle movement that we can see is these are strong reasons to believe that we will achieve the promise that is... you know it could be as something as and probably 50% the size of the RBT business if we keep pursuing it the way we are going right now. So again we are doing it in a manner where we do not compromise the brand recall and the response rate measures as a result of growth. So I am quite positive about that.

The second question of yours was on the MNA front. We are continuously looking for MNA as an inorganic growth. The question is that, first of all, any form of MNA growth is, firstly, it has got to be a creative, and second thing is we won't do something upscale. I mean in the past if you look at it, we have done two or three acquisitions and they have all been relatively small in the broad context of our market cap and our capability. Right now I think the time has come where we have the confidence, we have the management team, we have the credibility, we have the product base where we can actually take on something material. So we have been looking at MNA. Nothing has fructified obviously otherwise we would have announced it. But all I can say is that we are looking to do something in this space and if we do it, it is not going to be a small thing. It is going to be a large one.

**Sameer Naringrekar:** Thank you, Arvind. Good luck with the international rollouts. Thanks.

**Moderator:** Next question is from Shubham Majumder, Macquarie, Mumbai.

**Shubham Majumder:** Hi, Arvind and team. Congratulations on the decent set of numbers. I have three questions. One would be if you could just let us know what you mean by the contract with the large handset OEM? And if you would give us some colour with regard to what kind of run rate one should be expecting and the kind of rampup and when that should start?

**Arvind Rao:** Again just to put it in context before Sanjay answers the direct question. Traditionally our core customer base has been the Telcos, both in India and overseas. Now as we see a convergence in the space and more and more, you know whether it is the Nokia OVIs or Apple with iTunes, more of these handset OEMs and manufactures are beginning to dabble in the WAP space and we believe that it is in their long term interest to actually get involved in this in one way or the other. So rather than watching it happen from the sideline, we have said, "Hey, let's take our existing WAP services and let's also partner with them to provide the technology to them and customize it to them." So this is actually the first step in this process. The only thing I will caution you is you know these are large guys and it is like the Vodafone deal. The Vodafone deal is going to be extremely large but it is going to take three years to really come to a point where it is material. And I think the same thing is going to happen with the handset guys.

**Sanjay Uppal:** Like Arvind said, I think it's a little early for us to make projections about what could happen in this business. This is a new front that is being open because the handset guys are becoming a lot more active. And the other thing that is happening with handsets is that it is adopting a model that we have quite been used to on the PC side, which is that there is a bifurcation between what you can do on the client side and what you can do on the service side. As the handset technology and capability increases, there is a need to get some of our software footprint out there on the handset as well. So that is the other reason to go look at what the handset manufactures are capable of doing, which is what we have done. It's a little early to make projections. It looks very promising because there are some critical pieces of technology we can put on the handsets and we can sign up some of these big poes. I think over a period of time between that and the operator footprint you can see a number of new innovative services that could come out.

**Shubham Majumder:** Right. But what exactly would be your nature of involvement and how should we given that this is a new front you are opening, how should we be looking at the financial implication from this even in the medium term?

**Sanjeev Uppal:** It is still very early to tell about what this could... what we can over a period of time if we can start seeing whether we can give you some more guidance. So at this point it is at a very early stage. So in terms of modeling it out I think we just wanted to mention that we are opening a new front but we cannot give further details.

**Shubham Majumder:** Right. And also in your talking points you have mentioned the RBT service for a leading operator. What sort of uplift could we see from there and also like to ask in line with that question, in the point five here we have seen the subscriber reach actually declined in December quarter compared do September. So is it because of the operator deactivation that you did in the earlier quarter?

**Arvind Rao:** Yes, because of that.

**Shubham Majumder:** Right. And could you give a sense of how the press star issue with regard to how people access music with the TRAI directive coming in last quarter, how we have seen an uptick in the usage as well as the revenues? Has that bounced back to the levels where it was before the directive came in?

**Sanjay Uppal:** No, it has not bounced back. We believe that it will take about three to two months before it bounces back. We have taken a lot of steps to bring it back to the original level but it is going to take three-four months.

**Arvind Rao:** But worst is behind us and there was a point when because of the lack of guidance from TRAI, for the lack of clarity, the operators have stopped promoting it altogether. So that is beyond that step. So I believe that the worst impact is beyond us. Are we back to pre-TRAI levels? No. Will we ever get

there on post-TRAI basis? Maybe not. But a lot of that dip that has happened should be able to bounce back.

**Sanjay Uppal:** It is also related to how consumer behaviour is changing with respect to the services where the consumers are now looking at more pull mechanisms to access the service rather than the push mechanisms. And coupled with the fact that the original guideline was a lot more stringent and some of the operators went for stringency but the new guidelines are already more relaxed. That combined with the fact that there is going to be more pull mechanisms gives us belief that this is going to come back. It may or may not come back to the level of provisioning that was there prior to the directive going in.

**Shubham Majumder:** Would you be able to give us a sense of percentage of how much of the lost ground has been covered up? So if you lost let's say Rs.100 because of the TRAI directive in your belief, which I think you quantified to the extent of the loss that you had, how much are we back up to now?

**Sanjay Uppal:** I think what we had originally said was that the impact could have been up to 10% but the impact that we are seeing right now is out of that. I think it is changing on a dynamic basis. So I don't think it is possible to give one particular number. It is changing almost on a weekly basis depending on which operator it is and how they have actually rolled out the confirmations on their network.

**Shubham Majumder:** Right. But you did say that like it is half of it or the rollout count has been covered very broadly?

**Arvind Rao:** It is difficult to tell you. Let us put this way. From the deepest part, if you are ten down, today we would be about eight or seven. So like clawing our way back up.

**Shubham Majumder:** Sure. Okay. And finally, we saw a resolution in terms of fund raising. Can we just get some more clarity and colour in regards to what exactly the plans are, what sort of timeframes, what kind of numbers are we talking realistically and what the end use of those funds will be?

**Arvind Rao:** In the board meeting today, we got approval to go ahead and raise up to a Rs. 1,000 crore. And the combination of debt, equity and another instruments and obviously once we have confirmed the use of the proceed because right now we are evaluating a couple of options both in terms of operational contracts as well as buyouts, as well as M&A. So those have not been frozen. I mean if they are frozen, we will clearly announce them, but we have a reasonable confidence that the options are real and that something could fructify probably as early as six months or even before that or so. But again that is why we went for the board to get their approval. Obviously before we finalize it we have to go back to them, get their final approval and also go for shareholder approval. But basically the point I want to make is, as I said before on the call, is that before the end of the next fiscal year, which is before the end of March 2011 at the outermost, it is more than likely that we will be doing something large and

that may require use of external funds and so we are just putting in place the process so that we can move very fast once we have to move. I am sorry I can't say more than that at this point here.

**Shubham Majumder:** Sure. Thanks, Arvind. That is very helpful. When we say something large, should we read that as more operator engagements on our Telefonica or Vodafone or do you mean M&A?

**Arvind Rao:** There are all sorts of things that we have been looking at. This includes either doing more Vodafone, Telefonica type deals or it could be doing either M&A. Right now, there are huge number of options ahead of us. In fact the positive thing is that because of our track record, which has just continued to grow over the last few quarters, the ability to fructify some of the options that are available to us are actually gone up quite a bit. So in terms of going in front of customers or even talking to potential partners or acquisition candidates, the reception that we get has just increased. More than likely we will be looking at a combination of these things. That is why we wanted to raise a fairly decent amount of capital because we really believe that it would be a shame not to capitalize on both the market position as well as the scale that we are operating at today. So more than likely we will be doing a combination of a couple of things over the period of a timeframe that I talked about, over the next 12-15 months.

**Shubham Majumder:** Okay. Sure. Thanks a lot.

**Moderator:** Next question is from Sandeep Shah from ICICI Securities, Mumbai.

**Sandeep Shah:** If you just look at your non-financial KPIs, if you look at the active RBT users on a y-o-y basis, it has moved up by more than 40%. But the consolidated revenue growth if you look at, it looks like on a y-o-y basis it is flat. I do agree there has been a loss in one of the top domestic clients. How you could explain this even in the domestic business? Generally, Q3 is being seasonally better than Q1 and Q2 and the Q3 y-o-y growth, if you look at, has been coming down versus Q1 and Q2?

**Arvind Rao:** First of all, some part of the RBT user growth has come from international as well because in the last couple of quarters we have launched in Middle East, we have launched in Romania, we have launched in South Africa. So we have launched several international markets, RBT. So that is definitely a source of growth of some of the RBT user base.

**Sanjay Uppal:** Sandeep, you need to split this question into two parts and obviously the y-o-y revenue growth, if you look at the like-for-like number, what you have said is right. If you exclude that, there is a healthy growth and therefore it is very important to look at more of a sequential set of numbers rather than the year-on-year numbers.

**Sandeep Shah:** Okay. But, sir even the topline growth on a consolidated level was flattish on a y-o-y basis and we believe that there is no pressure on the

revenue share and the AdRBT user is also showing a good growth on a y-o-y basis. So in that sense, how this has happened with such a good growth on the RBT front? So does active RBT users number also include the users, which have not been commercialized yet?

**Sanjay Uppal:** No. These are the ones that are using the system today. It is a combination of multiple fronts. As Arvind said it is both India and international. Even in India, as you know, we keep trying different pricing models. If you look at the profile of consumers today, most of new consumers have more than one son and operator network is for less than 15-20 days in a month. So the profile of users in the operator network and we are trying on new pricing models with these consumers base. These are the combination of factors which is resulting in the increase in RBT users and revenue users.

**Sandeep Shah:** Okay. And just in terms of the gross margin, Arvind, you said that, in the next 3-4 quarters it can move up. So is it more to do with the internal cost efficiency or is there any change in the contracts with the content providers?

**Arvind Rao:** No. See, there is a difference between, what shall I say, if you really look at the line items coming between revenues and gross margins, if all of them were truly variable, then you don't have to worry about your gross margin. The reality is, the way the contracts are structured particularly in terms of content providers, they do not tend to be totally variable. In that, they either have minimum guaranties or they have fixed amounts or the lesser of this or that. That is what was creating problems for us in the past is that whenever there was a slowdown in the revenue growth you get punished on the gross margin because your ability to reduce the content cost is limited. So we are changing the nature of that structure such that the contents cost are far more variable, such that the gross margin should more or less tract the revenue growth. That's the first step. And I think we are about half way towards implementing that, which is why we have been able to stabilize the gross margins where you are seeing it today. The next step often is to see if there are cost prices that could be reduced. For example, in some of the overseas markets where we are operating, we are looking at things like content buyouts and seeing whether it makes sense to go and do a fixed price deal, such that we can contain the variable cost structure and reduce it significantly. So the first step is to stabilize the increased growth and then the next step is to reduce it. So you cannot expect to see both happening in the next 12-15 months.

**Sandeep Shah:** And this is the last thing, the enabling provisioning for roughly around 1,000 crore is fairly a big amount. So are there new deals in the pipeline as for a decent balance sheet size or this is actually the use of the funds and that's why we are doing it? What I am trying to say is the 1000 crore enabling resolution if we raise that it's fairly a big amount, so the new contracts as for the vendors to have a specific balance sheet size and that's why you need....

**Arvind Rao:** No. We have competed at all different levels and one business against people with much larger balance sheet and with people who have much

lower balance sheet. So it's not being done with that at all. That's not really the criteria at all.

**Sandeep Shah:** Okay. Thanks, sir.

**Arvind Rao:** Thank you very much. We will take one last question.

**Moderator:** Thank you, sir. Our last question is from Amit Ahire from Ambit Capital, Mumbai.

**Amit Ahire:** Hello, sir. As you have said by the end of next year March 2011, our Telefonica deployment will be over and probably we are not stating this schedule. So is it possible for you give colour in terms of what kind of revenue one can expect and any kind of revenue guidance you would like to give, sir?

**Arvind Rao:** The Telefonica contract, if you really look at it, is not different from some of the other international customer contracts that we are taking on. The only difference is that, this is taking it on 13 of them simultaneously within the short timeframe of one year. So really the revenue will map on to the subscriber reach. So as we launch in each country and we add a number of subscribers in that country to our reach, that's how the revenue should start tracking upwards. We believe that based on the current portfolio of products that we have signed up with Telefonica and it's a 5-year contract, in the out years we should see a revenue of well in excess of 50 to 75 million dollars a year based on the current portfolio or products that we have signed up with.

**Amit Ahire:** Okay. So that could be the sustainable revenue once we have all the subscribers lined up. That is the steady state revenue.

**Arvind Rao:** I won't say steady state but if there was no growth would that be the steady state, the answer to that is yes, with the existing set of products that we have signed up with and at the projected subscriber growth that they are projecting.

**Amit Ahire:** Okay. Okay, thanks a lot, sir.

**Arvind Rao:** Okay. I think we will end the call now. I think you have Rajesh Moorti's and Praveen's e-mail Ids. If there are any further questions or anything, feel free to e-mail us or call us. Thank you very much.

**Moderator:** Thank you. That concludes our conference for today. Thank you for participating and you may all disconnect now.