

OnMobile Global Limited
Investor Conference Call Q2 10-11
October 25, 2010

Moderator:

Good afternoon, everyone. Thank you for standing by and welcome to the OnMobile Investors Conference Call for Q2 2010-11 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. Please be advised this conference is being recorded today.

I like to hand over the conference to Mr. Rao. Over to you, Sir.

Arvind Rao:

Yeah, thank you very much. First of all, I wanted to welcome everyone to this second quarter earnings call. I'll just talk a little bit about the background and the context and I'll pass it over to other. We have Sanjay Uppal, our President and COO; we have Rajesh Moorti, our CFO; we have Mouli Raman, who is our CTO and Co-Founder; and we have Sandhya Gupta, who heads our M&A and Investments Strategy.

They'll be handling most of the call as I have a bad cough. I can't talk for too long but -- so we'll start off with the first point I wanted to make, which is, you know, we're seeing that there is a general rebound in the telecom VAS sector from the levels that we had seen last year largely because the TRAI effects, which affected us last year are well under control because of the measures have been taken, so that's now behind us.

Second thing is that with the introduction of 3G, many operators have realized that VAS is going to become even more important going forward because data access rate, unlike in many developed countries, may not be as significant and sustainable as in those countries and hence the bulk of the 3G value add will really come from the walled gardens or value-added services that the operators offer. So we're seeing a renewed sort of interest level from all the operators in terms of expanding the value-added services portfolio of services going forward and this is a great opportunity for us.

So as far as our talking points that we normally circulate and go through on these calls, the first one which I'm going to cover is the background context. We have seen that or rather we estimate based on our knowledge of being in Indian operators that the value-added services in each of these operators on average should grow at roughly around

5% on a quarter-to-quarter basis from the first quarter to the second quarter. And over the same timeframe, OnMobile India, we have had our revenues grow at 7%. So we have grown slightly faster than the market. That's a function both of new products as well as increased penetration of our existing products and we talk a little bit about that going forward. So to carry on with the next point, which is material new developments that we have to announce concerning customers, I'll hand it over to Sanjay Uppal in Bangalore, who is our President and COO to take it forward. Thanks.

Sanjay Uppal:

Thank you, Arvind, and welcome everybody to the call. So this quarter from a customer perspective, we had a fairly broad based increase in customer traction. So starting with Indian geography, we continued to add customers to our reverse RBT offering that we had talked about last time that we had launched with Tata and we have signed on an additional one of the India's largest leading telcos to that offering.

Now from the Latin America stand point, as you know, we have our longstanding project for a multi-country deployment with Telefónica and we have now launched the largest country so far, which is we have launched Mexico, which being the third country in this multi-country project and the current degree that we have seen for our RBT service is inline or slightly ahead of what our projections has been, this is both for RBT as well as for voice services.

And as far as the rest of the project goes, we are completely on track to complete the deployment for the rest of the countries in the region. And we're also looking at deploying additional services beyond the ones that we've mentioned here for all of those countries in the Latin American region. So, so far things have been going very well for that particular project.

Now, we had also talked about moving on to the next point, we had a new product called the Mobile Box Office. This is where you take a full-length feature film and you condense it down into between 15 to 20 minutes audio segment and that is then played out on the voice channel. And this new offering that we had, we had launched it initially with one operator and over the course of the last four months or so, this has been doing extremely well. We have now launched

it with practically every operator within India and now we're going outside of India as well. So this is our Mobile Box Office offering that has done particularly well.

The next piece is the other large global project that we have is with Vodafone and we have completed the launch of the RBT project with Vodafone in Egypt. Egypt has a decently strong base of about 26 million subscribers. This is Vodafone in Egypt. And the migration was done in an accelerated timeframe. They're already beginning to see some strong revenues coming from that deployment.

So a couple of other areas closer to home, we have one of the RBT replacement projects for a large public operator in both Mumbai and Delhi. This is again another competitive win where we will be displacing our current RBT system with the OnMobile RBT system. So we had a strong vote of confidence for, you know, what we've been able to accomplish with RBT here.

Now in Asia-Pacific, we have talked previously about how well our Music Radio has done. That continues to increase. We have doubled the penetration in a short order of time, so this is just over a quarter. And one of the large operators in SAARC and in that same region, we have taken the penetration of another operator above 20%, 20% being a fairly significant number when it comes to Music Radio as you know.

And in Pakistan, we have taken our live speech recognition based Music Search service and we've launched it in two large operators. So just overall again to say that we've had a fairly broad-based approach this last quarter, everything ranging from a new deployment in the Middle East to Latin America and when I talk about the product side, I will also highlight a couple of things that we have done within North America, particularly for some of our new Android-based deployments.

So with that, I'll pause to see. Arvind, do you want to interject here before I move on to the material developments on the product side?

Arvind Rao:

No. I guess, in summary, the thing is that the two large global agreements that we have both with Telefónica and Vodafone are both cranking away and doing very well and

are on track or ahead of track. In addition to the Vodafone Egypt that we have launched, you know we continue to have dialogues with over eight to ten Vodafone operators worldwide. So even though we have launched one this quarter, there is a pipeline of people that we are working on and we are hoping that they will flourish going forward. So on both the international large agreements as well as on India, there is a healthy uptake in our revenues and in the market appeal of our products and services. So that's the net-net on the customer side. Let's now go into products. Back to you, Sanjay.

Sanjay Uppal:

Okay. Thanks, Arvind. So what fuels the growth on the customer side is obviously products that we have, the current products that are continuing to show robust growth as well as new products that we are introducing. And I just wanted to highlight a few of the significant ones that we have developed this quarter.

So as you know, we have a phone back-up solution that we have been deploying over the globe in a large number of countries everything from North America to here within India, we have added a very significant capability to that solution and that is antitheft. So, you know, if you have a phone and somehow it gets lost, you can remotely wipe it, you can track it and this is beginning to gain some very strong acceptance with large customers that we have in APAC and now we're going to roll this out on a worldwide basis.

Now a different flavor of what we have done is when you look at the excitement and the growth that is going on on the App side, on the data side, certainly Android is picking on as a platform worldwide. Android is also coming in quite strongly into India and we have a strong offering in Personal Data Management. And what we have done in this last quarter is we have got two very significant wins in western operators for our personal Sync solution, so this is syncing from an Android phone to all the data that a user would store inside the operators' network. It gives the operator a stronghold over the subscribers and reduces churn as well. So this we believe is a fairly significant offering for this last quarter.

Now we've added a capability on devotional offering that we have launched what's known as the Tafseer portal,

which contains interpretations on the Holy Quran. This, we believe, is the first in the industry and this portal was launched for an operator in the Middle Eastern region.

And then lastly I wanted to mention that going afield a little bit from just pure value-added services, we've talked to you folks previously about our Business Intelligence Solution where we take the information that we've been able to gather on what the likes and dislikes are of particular consumers on the network and use that to control churn on the basic core service. And we have reached a milestone, that in one of the operators that we had launched, from the beginning that we have been able to save 250,000 subscribers from churning in a month.

Now, just to put this in perspective, every month we're able to bring back about 22% of the subscribers that have been in grace for more than 30 days. Now, this is for the core service. And this we believe is significant because the information that we have, the intelligence that we have can then be applied to the core network, which obviously has a large impact, if not larger than what we can do on the value-added services side. So this gives you a glimpse of again a fairly broad-based approach also on the product side, which will help fuel the growth on the customer side as well.

Back to you, Arvind.

Arvind Rao:

Okay. So I think on the organizational side, on the acquisitions, just wanted to say that as you all know, we have announced the acquisition of the Dilithium Networks, which is one of the leading Silicon Valley developers of 3G technology. They have about 175 patents and they have been very instrumental being the pioneers in 3G video at a worldwide standard level. And more importantly, their products are deployed and customer-validated all over the world in operators like China Mobile, Deutsche Telekom, Yahoo!, BSNL, Chunghwa Telecom. So there is a strong validation of their technology. So it's a proven technology. It is well established. There are great reference sites for us. So it's a great platform to build off and use the OnMobile strength to take it to even further heights.

And in particular, this technology we believe is going to be extremely instrumental for us to maintain our leadership

role in the Indian VAS market space. So we're looking forward to integrating this technology as we go forward and roll it out with all our existing customers.

On the human resource side, we have appointed Ratnesh Sharma as our new VP of Marketing. He comes with 20 years of experience. So we're really looking forward to, you know, putting together a much more cohesive and a much more integrated approach to marketing, which we've not done before.

And finally in terms of new offices, we continue to roll out worldwide and implant the OnMobile flag. So we have opened offices and we've registered them in Panama, in Chile, in Nicaragua, and in Spain as well. So there is strong growth in both the European and Latin American markets for us in this quarter.

So with that I am going to turn it over to Rajesh Moorti, our CFO, to walk us through the non-financial KPIs and then also to go into the financial numbers.

Rajesh Moorti:

Yeah. Thanks, Arvind. Welcome everyone. In terms of the non-financial KPIs, one of the significant changes that you would notice in this table is that we have reached 1 billion mark in terms of the subscriber reach and that's mainly related to what we've announced last quarter about winning back of the Reliance contract in India.

In terms of the rest of the KPIs, we see a steady and a good increase in the unique users, active users of RBT and increase in the number of countries that we are live in. While we get some encouraging results on those fronts, we have ensured that the number of employees does not increase much more than needed. So we have a tight control on costs as well.

Moving to the financials, again in our talking points we had given the results of quarter two as compared to quarter one and split between the core and the investments. So we continue to track our results on the core business as well as track how much we are spending on the investments side.

If you look at the revenues of quarter two, we've got a revenue of 131.5 crores, which is a sequential growth of 6%. So for the second quarter in a row, we have seen a

mid-single-digit kind of sequential revenue growth and so that's the encouraging sign.

If you look at the overall EBITDA, our EBITDA is around 280 million, 28 crores, which is more or less in line with the last quarter EBITDA. Operating profit of 15 crores was comparable to the last quarter and PAT of around 23 crores as compared to the 18.5 crores.

I'll just quickly give you a few highlights as to what are facts behind these figures. The two things which have impacted the operating profit this time around, one is that our continued investments, our increasing investments in the new business opportunity. So if you look at the investment column of the financials section, our operating profit impact from investment is around 15 crores as compared to the 12 crores of the previous quarter. And we have also had some one-time impact because of the significant change in foreign currency rates in the month of September. So we have marked those to market and that had impact on our core business as well.

On the positive side, we had an additional other income of around 10 crores, which is in the other income line, which is by way of sale of our investments in Ver Se. We had roughly 35% holding in Ver Se. We have sold around 8% of that and our holding is currently 27%.

And coming to the tax rate, our tax rate continues to be in the 13 to 15% mark as we had explained in the previous quarter. So that's about financials and one thing I have to highlight is for the six quarters now we have been giving you the split of our business results in core and investment buckets. And one thing that stands out is that while our core business EBITDA dipped below 30% around this time last year, for the last two quarters we have seen a pretty consistent EBITDA percentage of around 32% on the core business. So we continue to track that very closely and ensure that whatever is invested into new business opportunities moves into the core and that then gives the same kind of results that our well established businesses in India and APAC give us. So that's a pretty good encouraging sign. So we have reached some amount of stability and we expect to take it from there.

So that's on the financials. We can open up the floor for questions now.

Arvind Rao:

Yeah, let's open it up for questions now.

Moderator:

Thank you, sir. At this time if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, you can press "0" "2". I'll repeat, "0" "1" to ask a question and "0" "2" to cancel your request. With this, our first question comes from Mr. Giri from IIFL Capital. Mr. Giri, please go ahead, your line is unmuted.

Giri:

Okay, fine. Your cash balance is about 185 crores, so it is in the same region as it was last quarter. So if 10 crores has come in as other income only from Ver Se sale, then why is the interest income from the cash balance not a little higher? It should be about 4 or 5 crores, that's number one.

Number two, on the Ver Se sale itself, I would just like to understand the reason behind it and the strategic significance. Then your deferred payment liabilities almost unchanged between two quarters at 141 crore, what is the schedule of repayment and by when will this entire amount to be paid off?

And lastly, sometime back you had said that you expect all 13 Telefónica countries to be deployed by March or April 2011 and you are trying for an acceleration by three months. So can you give an update on that timeline?

Arvind Rao:

So I think, Rajesh, why don't you answer the financial issues around Ver Se and Telefónica? I'll take it from you after that.

Rajesh Moorti:

Okay, sure. Hi Giri, in terms of the cash balance, yes, we have roughly 185 crores balance at the end of the quarter. And your question is about why did we not earn the same amount of interest? Actually, if you look at the other income line, it's not necessarily only the interest income for the company. It also includes any FOREX gain because FOREX gain cannot be shown as operating item. So last quarter with the favorable foreign currency movement, we had a gain which was in other income line and this time it's a loss. So that comes up above the operating profit line. So that's one reason.

The other issue is that we continue to earn the same level of interest. In fact with the interest rates firming up that interest income is higher than the previous quarter. Number two, in terms of deferred payment liability, yes, we have made some payments, but in the previous quarter, there is some rescheduling in our deferred payments to the later part of the year. So before March quarter end we would have paid all our deferred payment liabilities.

Giri: Okay, understood.

Arvind Rao: Okay. So now on the other two questions, you had Giri...

Giri: Yeah.

Arvind Rao: First of all on Ver Se, you must understand the reason we did Ver Se was because we believe that mobile classifieds is a space that could be large and our R&D team did not have the time to get to it because of our backlog. And hence it was a market opportunity that would go unserved. Which is why when we located an entrepreneur who actually happens to be an ex-OnMobile person and he had gone to Airtel, we approached him with roughly the same idea, we decided to incubate him and also to fund him. Now, we don't want OnMobile to be a holding company or a venture-capital company. So we're not in here. We didn't do this investment to sort of really make money or obviously we don't want to destroy money, or shareholder value, but the intent was not just make money. It was actually to open up a new market segment in the mobile classifieds space.

That being said, we have a clear agenda that we will exit this investment over a period of time. So what we have done is nothing more than just stick to that and do an orderly sale of another slug. And at some point in the near future probably within the next 12 months or so, we will be liquidating the entire position in Ver Se in consistent with this strategy. So there is nothing out of the norm. The company is doing extremely well. The revenue growth is around 100% year-on-year, obviously because they are on a smaller base. The margins are very attractive. We have got mutual investments to take the company to the next stage of growth capital. But again, like I said, we are not a VC and we are not a private equity investor. So we have done our bit over there. We have incubated it, we have satisfied with

the operators with this new vertical and it's now our time to recover our capital and exit.

Giri: Sure. Understood.

Arvind Rao: Regarding Telefónica, as Sanjay has said, here I must say that while we had told everybody that we are on track to do it, quite frankly I was definitely worried because it's a very large project, it's in a completely foreign land on the other side of the planet. It's in a heterogeneous country. Each one has a different language, a different set of people, cultures, what content they consume, what sort of value-added services they would consume. So there was a lot of uncertainty about this project. We have been very, very pleasantly surprised by both our ability to build out a team, which has local representatives from almost all those countries as well as to be able to actually deploy in a very time-bound and a disciplined manner.

In many cases, for example there were huge issues with importing of hardware. The hardware used to be stuck in customs where all sorts of questions are being asked. It was not easy. But the point is that if the project is completely on track and more importantly the deployments that we have done so far, the results have been pleasantly in line with or in excess of our projections. So we are very happy about the project both from an execution standpoint and from a overall market demand and potential standpoint.

Giri: Right, understood. So you would still consider that there is a chance of the accelerated completion by December or would you think that the original timeline of March/April 2011 is more realistic?

Arvind Rao: I think for all your planning estimate you should use March 2011.

Giri: Right. Understood. Okay, Arvind, thanks a lot.

Arvind Rao: Sure.

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

Srinivas Rao: Thank you so much, Arvind and team. Just two or three questions. One, on the particular product which you

mentioned on the Android platform, I'm very curious to understand because I would assume Google itself is pretty active in this space and you get a lot of products from Google itself which has a lot of your personal data and calendars. So how much of traction can you as a third party solution provider can you have on that platform? I would be curious to understand that. And secondly, if you can throw some more light on the traction, which you're getting in the Indian business, VAS, you are seeing a bounce back. So, any color? If that's happening because of the telecom revenues itself or you are seeing the VAS share itself come up?

Arvind Rao:

I'll answer the second question and then turn it over to Uppal and Mouli in Bangalore to deal with the Android question. On the Indian section, what we are seeing are two things. Last year, because of the TRAI and regulatory uncertainty as well as the whole uncertainty associated with market conditions in terms of prices, new entrants and this whole 3G spectrum, because of all these operators were distracted and the focus going on they're so much on value-added services both in terms of marketing commitment as well as the willingness to launch new services in an accelerated timeframe like we used to do in the prior five, six years.

So I'm happy to say and that now that there is still some uncertainty and while the telecom sectors rough patch is by no means over, a lot of the uncertainty is actually being taken out and I'm happy to say that operators are now looking more and more to value-added services as the method of growing their top line revenues much faster. So the pressure and the demand for us will launch more services. And more importantly for us to replace incumbents in operators whose services have not been performing as well as our services and other operators has really gone through the roof.

And what I mean by that is even if they're live with the service in operator X in India and some other competitors are doing it in operators Y and Z, okay, what has happened is because of the market in VAS is becoming more efficient and because there has been more cross operator change in personnel, the value and the knowledge about OnMobile and our performance is actually spreading to a point where

we're seeing more and more replacement opportunities in addition to new wins.

So in other words, if somebody ask me, the key thing is, it is reflecting in sort of gain in market share at the operator level. That's what's really happening. That's where I see the trend line and that's an extremely encouraging trend line for us because it validates two things: it validates the competitive superiority of our products in terms of software features and UI, the ease of use; and the second thing is it validates the superiority of our managed services accounting that are on the ground within the operators who are actually doing the work of making sure the revenue grows day-by-day-by-day. For those two are very healthy signs.

So now I will turn it over to Uppal and Mouli in Bangalore to answer your question on the Android.

Srinivas Rao:

Thanks, Arvind

Sanjay Uppal:

Okay. So on Android, you know, of course it's Google's platform, so Google can add whatever features that they see fit, but Google also wants to encourage other developers to add valued-added capability so that they can distinguish their platform from other platforms. So in fact if you might recall on the phonebook side, we had participated in the Android challenge that Google had put out and we were one of the winners. So Google actually wants to encourage people like us to come and develop on that platform, so that they can get a much wider base. So that's point number one.

The second point is that when we're doing this development, we are looking at a fairly focused area. It is the sharing of personal data management across a variety of handsets. The reason I focused on Android is because Android is gaining traction on a worldwide basis, plus gaining, we believe, it will gain traction in India. But the same facility that we are developing on Android, we are actually developing it on a multi-handset approach. So we have a similar one that we have put on an iPhone, we have coverage on BlackBerry, we have coverage on Symbian and we will be coming out in the next two to four months or so. So this kind of multi-handset approach is something that the operators like very much because definitely while

they have Android and they are focusing on getting Android as one of their key deployment platforms, it's certainly not the only platform that they have. So the kind of multi-handset approach that OnMobile can bring to the table, here's a big hit with the operators.

Srinivas Roy: Fair enough. Thanks.

Moderator: Our next question is from Mr. Sameer from BNP Paribas.

Sameer Naringrekar: Yeah, thank you. Good afternoon, Arvind. Just one question in terms of revenues coming in from new investment from the international market. We have seen this number pretty much flat again over the last couple of quarters, so just wanted to get a sense from you in terms of what would be the tipping point in the international market where we would see this number reach 15 to 20% of overall revenues. And if you could give us a sense I think you are not at the liberty to share numbers, but in terms of the new markets which you have deployed namely in Mexico, Vodafone Egypt and the operator in Mumbai and Delhi, which I presume is MTNL, if you could give since they already had an RBT deployment in these markets, what would the incremental RBT subscribers you would be getting from these contracts? And in the international markets what's happening on the ground in terms of help from Telefónica and Vodafone to basically push your mobile VAS services?

Arvind Rao: Okay. So a couple of things, the relationship with both Vodafone and Telefónica is getting stronger and stronger because they are now seeing the actual results from our deployments. So the acid test to that is Telefónica, for example, has signed with us for other territories other than Latin America and is talking to us about even further expansion into other territories of theirs. And that would never have happened so fast if they had not been extremely ecstatic with the results that we had got. The second thing is same with Vodafone. While they have gone through their own reorganizations and all that in London, they have seen the value of what we're doing and the early results have really literally blown their mind. And I'm talking about, while I can't really number it, but in many cases, there is growth of like 30 to 40% in the installed base within 60 days of taking over the service.

Sameer Naringrekar: Yeah.

Arvind Rao: And these are services that have been lying with them for a year or more than that. Okay, so that sort of an increase in such a short timeframe is something that they did not expect and to be frank we did not expect. We did not project such a jump in this shorter timeframe. Okay, so that has turned out to be almost universally the case in all these deployments. Now, in terms of the international markets and the growth, okay, the issue is like this. In many of the developed country markets like Europe and the US and all that, those countries are in a relatively zero growth phase. So over there, it's going to take us a while because we have to launch the service to replace an existing incumbent and then ramp the service up. So it's going to take us a while before those revenues, which are material, start to contribute. On the Asia-Pacific and Middle East side, we have launched several new operators, but again these things have a slight lead time in terms of growing. It's not that there has been no growth on the international front, but in terms of relative to the Indian growth, you know, it has not sort of exceeded that growth so as the mix can shift from the international mix the way we wanted it to be. So we are focused on that. That's a major agenda item for us going forward. But the only concern I have over there in terms of saying that we can do it in the short timeframe is that the momentum in India itself is beginning to swing back extremely positively.

Rajesh Moorti: This is Rajesh. Just to add what Arvind mentioned, if you look at our P&L, core versus investments every quarter, we cycle out things, which have passed the 12-month mark. So the country that we went live in 12 months ago would no longer be in the investment bucket, it would be in the core bucket. So that's how the international revenue in the core business also you can see is growing and as we move into the later part of the year, that number will keep growing further.

Sameer Naringrekar: Just one quick clarification. So in terms of where you switch out an existing vendor in an operator's network, do you retain the RBT subscribers or do you have to build up your RBT base from scratch again?

Arvind Rao: No, no. Definitely we take over the installed subscriber base because as far as the operator is concerned, the

branding and the service offering remains the same. So the switchover is completely invisible to the subscribers. So they don't know that the platform and the service provider have changed from XYZ to OnMobile. With the exception that there may be some new features now that would be available to them.

Yeah. But even then, they don't know that it's OnMobile behind the scene unless we do some above the line or we go out and do a press release or something like that.

Sameer Naringrekar: So if you retain the subscribers, are you at a liberty to disclose like in terms of these new countries which have been deployed and as well as MTNL, what's the kind of subscriber base that you're adding in terms of RBT?

Arvind Rao: No. We have said this before. At a customer specific level, we are not at liberty and we will not be releasing numbers, because these are confidential and they are competitive. I mean, no customer would like us to release the numbers, because it's a bit competitive position in their local markets. But what we can tell you is things like the fact that we've been able to achieve almost -- whenever we substitute -- substitution we've been able to achieve at least in international markets, 30-40% increase within the shortest 60 days of taking over.

Sameer Naringrekar: Okay. Thanks a lot. Thanks. Good luck with the international deployment.

Moderator: Our next question is from Mr. Sandeep Shah from ICICI Securities.

Sandeep Shah: Yeah, Arvind, last time in the conference call, you said that there is a possibility of some revenue sharing agreement renewals. Any update for Q2 or chances of the same in the H2 FY11?

Arvind Rao: No, we continue in all places to adhere to the volume discounts or whatever that we have negotiated and agreed to, which are reflected in our contracts. But other than that, we have not had any material places of operators actually demanding or requesting some significant or material downward reduction in the revenue share. So we're not seeing any of that.

Sandeep Shah:

Okay. And do you expect any to come in the H2 FY11?

Arvind Rao:

I can't really say yes or no. Now is there pressure on the operators to sort of go across the board and reduce cost from all their vendors? Sure, there is. On the other hand, on our revenue share, reducing the revenue share is not really the answer because it's the revenue share of a larger number. So long as we can keep the revenue growth going and explain to customers that you know to pay us X percentage of a large number is less than for them to keep 90% or 95% of a lower number and they've seen this in spades. What is interesting to me is that in many of these cases where we substitute to take over an installed base, okay, we have actually been able to increase price.

Sandeep Shah:

Okay. And just to drill further into the international, even if we add the investments as well as the core business revenues from the international market, the growth has been actually just low single-digit. So is there any lower than expected execution in some of the Vodafone countries like Romania, South Africa or any other countries, which has been added outside the LATAM or Spain because the growth seems very low on a Y-o-Y basis also at 1.8%.

Arvind Rao:

As I said, you have to remember one thing, that is with international growth, these are the issues. The issue is that it takes a lead time to build it out. So while I told you in the case of replacements and all where we are lucky we can start off with an installed base and get a very quick start going. This happened in a couple of cases of Telefónica, Latin America and Vodafone Egypt. But in many of the other cases where they have deployed, there's been a virgin deployment. Virgin deployments typically take anywhere from 9 months to 12 months, post going live. You know, it starts showing revenue momentum.

Sandeep Shah:

Okay. So just in terms now we have too many countries, which we have already gone live and which is there in the pipeline in terms of commercialization in the next one or two quarters. So one can expect that from this 30 crores as a base going forward, the revenue growth may be better in the international revenue?

Arvind Rao:

In the near-term, we do anticipate that the international growth, in the near-term, meaning, is like a one to two year basis, I would say we definitely expect the international

growth rate to be higher than the growth rate on our domestic revenue.

Sandeep Shah: Okay. Just in terms of the investment, the international revenue, which we have shown off close to around 3.7 crores, does this include any Vodafone global revenue as well as any LATAM revenues?

Rajesh Moorti: Yeah, the definition, Sandeep, is exactly the same as we've been following for the last few quarters.

Sandeep Shah: Okay.

Rajesh Moorti: Even if a particular property starts yielding revenue in that 12 months period, we will still show that as an investment in the investment bucket.

Sandeep Shah: Okay. So even the LATAM, some part of Columbia may be included in this 3.7 crores?

Rajesh Moorti: That's right.

Sandeep Shah: Okay. And just the depreciation in this quarter on absolute level has gone down sequentially. What is the reason for the same?

Rajesh Moorti: Yeah, there is no particular reason behind that. While we have mentioned it in the previous calls that we follow a three-year depreciation policy for certain assets and five-year policy for the telephony card. So it is just a question of timing that there may be certain assets, which have gone out of the depreciation cost line, but we are still continuing to use those.

Sandeep Shah: Okay. And what's the CAPEX guidance? Can you just once again update?

Rajesh Moorti: We have roughly spent around 30-32 crores so far in the first six months and we'll spend between 70 and 80 crores in the full-year.

Sandeep Shah: Okay, thanks.

Moderator: Our next question comes from Mr. Naveen Kulkarni from MF Global.

- Naveen Kulkarni:** Yeah, I have one question on the acquisition of assets of Dilithium Networks. Apart from the patents that you have acquired from Dilithium Networks, what are the physical assets that you have acquired, since this company is already allied with so many operators across the globe? So are there any physical assets that are in place with various operators?
- Arvind Rao:** Sanjay, do you want to take that?
- Sanjay Uppal:** Yes, by physical, do you mean the actual hardware or do you mean --?
- Naveen Kulkarni:** Yeah, actual hardware as in data cards or anything of that sort?
- Sanjay Uppal:** Okay. So out of the four platforms that Dilithium has, one of them is related to a hardware product and we have acquired the physical assets that are related to that product, both the physical assets that were located at Petaluma facility that Dilithium was at, and any other physical assets that were located out of that facility that was still under control of Dilithium. So those are physical assets, but I'll just mention one more thing. Apart from the physical assets and the patents, obviously the intellectual property, which comprises the software across these four product lines was also acquired by OnMobile. Rajesh, do you want to add anything?
- Rajesh Moorti:** Yeah, so the total consideration that we disclosed or we talked about last time included the IP related assets. There are fixed assets in other customer sites or our offices in U.S. There would be some inventory, which is used for servicing the new orders and some receivables from the erstwhile customers or the customer contract that continue. So these are lump sum considerations paid for all the assets together.
- Naveen Kulkarni:** Okay. And could you provide some update on Voxmobili? What kind of revenue traction you're seeing with that?
- Rajesh Moorti:** Yeah, Naveen, as we have discussed in the previous calls that Voxmobili, while it's a legal entity, but it's been fully integrated as a data products business unit and it is very difficult to really split it out because this product is sold now and bundled with other product offerings and we don't really give further segment wise details.

- Arvind Rao:** Also here is the issue. As part of the integration process, all the companies that we have acquired have eventually been embedded into our existing structure, and our existing structure consists of customer facing units, which are deployed all over the world and product units. So for example, we had acquired an earlier company called ITFinity as well. So both ITFinity and the bulk of the Voxmobili resources today are embedded into one product unit called our Data Products Unit.
- Naveen Kulkarni:** Okay.
- Arvind Rao:** That has got operations in both Bombay as well as in France. So the units are combined and we don't break it out from an accounting standpoint. We look at the overall entity whether it's meeting traction in product innovation and in terms of revenues and contribution margin.
- Naveen Kulkarni:** Okay. That's it from me now. Thanks.
- Moderator:** Our next question is from Mr. Nikunj Doshi from BE Capital.
- Nikunj Doshi:** Yeah, this is Nikunj Joshi here from BE Cap. Just wanted to understand all these new products that we launched, what is this Mobile Box Office and all that, what is the commercial viability of those kind of products, if you can just explain?
- Arvind Rao:** What do you mean by the commercial viability?
- Nikunj Doshi:** What kind of money we spend on development and what is the revenue that we make out of this product?
- Arvind Rao:** Yeah, a couple of things here. Like I said, we don't disclose the revenues at the product unit or the customer unit level. But in general, we manage our products towards the breakeven, which is no longer than two years from the date it was deployed.
- Nikunj Doshi:** Okay.
- Arvind Rao:** Okay, so when we do our internal business planning and our ROIC and all the analysis, investing in a product, we feel relatively comfortable after doing all the haircuts, making the necessary adjustments and reselling it to

customers that we will be able to recover the investment capital well before two years. That's the sort of the thumb rule that we use.

Nikunj Doshi: And is it possible to give some insight into how many customers you would have for this Mobile Box Office kind of product?

Sanjay Uppal: In terms of the number of operators who have signed up for it, we had mentioned four, but actually it's up to seven now.

Nikunj Doshi: Okay. But in terms of number of customers who'd be using this?

Sanjay Uppal: We typically don't disclose that number. And one more thing I would say, the aggregate of what we spent on the product development side and any investments we make are in that investment bucket. So that is just to give you a flavor, but that doesn't again segment it out by a particular product line.

Nikunj Doshi: No, I wanted to understand in this kind of product, who would listen, say movie on a mobile. So just wanted to understand what is the kind of commercial viability of this kind of product?

Arvind Rao: Yeah, one thing I must say over here is that I've had so many people even tell me about ringback tones, okay, particularly when you go into the developed countries in Europe and U.S. and all that, where in spite of their operators' best efforts and all that, the number of subscribers for ringback tones, I mean if you look at even very large operators like AT&T, Verizon, Deutsche Telekom, if you look at all these big operators who launched ringback tones, they have hardly got one or two million subscribers in spite of all their market muscle and brand power.

Nikunj Doshi: Right.

Sanjay Uppal: And their question is, ringback tones, what a discretionary product, you know, it's a fad, who would ever want to use it if you can't hear it, so why would anybody pay money for it, blah, blah, blah. Yet the reality is, today in India alone, we have probably about 30 - 40 million people using

that service and happily paying for it month on month on month in one of the most price sensitive markets in the world. Right? You and I and all of us on this call, we may not be the representative market for the sort of the mass market value-added services, which we specialize in.

Nikunj Doshi:

Okay.

Sanjay Uppal:

Remember one thing, about the value-added services, the value-added service is in the market, it's like the Internet to some extent. In fact, it has a huge amount of flexibility and capability in terms of software to launch products, which are personalized for the market. So you can add services designed for farmers in Bihar and Uttar Pradesh as well as services designed to the high-end stock trader in Mumbai; all the way from one extreme to the other extreme.

Nikunj Doshi:

Okay.

Sanjay Uppal:

And Nikunj, just one more thing that Mobile Box Office actually it's quite popular. You should try it sometime, it's actually already into one among our top 10 product lines. We can say that much.

Nikunj Doshi:

Okay. Thank you.

Moderator:

Our next question is from Mr. Nikhil Pahwa from Medianama.com.

Nikhil Pahwa:

Hi, I was just curious about how you position for App Stores eating into operator revenue enhances on mobile revenue? Are you looking at any point in time to launch portal or to launch direct to consumer sort of services?

Arvind Rao:

Okay, first of all, I'll comment on the first statement, which is, at least I have not seen any evidence, telling me that an App Store launched by any one, whether it is iTunes or anyone has cut into an operators revenue. Okay, it may have cut into in terms of it could be an opportunity cost in that for example one could argue and say if AT&T had launched their own App Store and pushed it very hard before the Apple iTune Store, could they be capturing, pick a number, 25% of the revenue that Apple iTunes is making today on their App Store. I don't know the answer to that. But it's not proven to me anywhere. We have not seen any evidence, which says that an operator was making 100 and

out of that 100, they lost 10 or 20 to a Google App Store or to an App iStore. I've not seen any evidence of that. The fact is that by both operators as well as third parties like Google, Blackberry and Apple launching App Stores, they have expanded the overall market and hence in absolute terms, whether it is off deck or whether it is on deck, the overall size of Apps market continues to grow. Now obviously the off deck part of it did not exist. How much of that would actually have been captured by the walled garden of the operators? Anybody's guess. But that doesn't bother us. So we're looking at the same and saying an operator has got unique capabilities and unique strength, which a third-party App Store may never be able to match, in particular presence, location, real time billing, okay. So our focus is to generate as many services as we can to generate as much revenue as possible for an operator, which capitalizes on these. And this is one of the main reasons. For example, we are focused so heavily on ringback tones and launching all sorts of variations including reverse ringback tone, social ringback tone, adRBT, corporate RBT, social RBT, because this is a class of services that nobody outside the operator network Google, Nokia, Apple, none of them can launch or match with those. So we continue to focus on a lot of these services.

Nikhil Pahwa:

So let me rephrase the question. Are you in anyway planning to get up for the opportunity provided by the other half of the VAS ecosystem, which is the off-deck opportunity?

Arvind Rao:

Well, like I'm saying, for example, if you look at Dilithium, for example, right now that we've just bought, they are supplying technology and will continue to supply technology to ISPs and content websites like the Yahoo, where their equipment like real-time transcoders, which allow video streaming to be reformatted on the flight to any sort of a handset is absolutely unique, patented and is probably one of the only capabilities in the world. So they're going to continue serving those categories of customers with a specific set of products. So we're not excluding those customers.

Sanjay Uppal:

Yes, Nikhil, one thing I like to add to what Arvind said and perhaps it's just part of your question, do we intend to launch any OnMobile branded or otherwise branded

products into other people's App stores. And yes, we actually have done that. We have launched a couple, as I mentioned once, one of them was the Phonebook 2.0 that was free product that we had launched. We had launched one on cricket on iPhone. So we will do that, but as Arvind was saying, it's a very limited class of applications, and limited not in the perspective of what business potential could be, but limited on the perspective that it has to count on the operators' ability to distinguish themselves from just this open garden of having hundreds of thousands of applications. And those distinguishing features come from the fact that the operator has the billing presence, they have the location presence, they have basically presence inside the network. And our personal data management suite allows them to take a connected app like a phonebook and make money out of it. So yes, it is possible and we have done it before that we would put an app into an app store, but that's besides the point. The point really is how to get up with these connected apps to help the operators make more money.

Nikhil Pahwa:

Okay. Just going back to what you were saying about Ver Se innovation that you don't want to play the role of a VC. Just wanted to get a sense why didn't you look at increasing your stake on acquiring the company because VC would typically do what you did, which is incubate or help grow the business, and then look to exit with someone else acquiring it?

Arvind Rao:

Well, when we incubated it, really the role we played was of an angel and of a super angel. VCs typically today don't play angel and super angel role. They usually come from growth capital after a product or a prototype has been validated and stuff like that and towards the late stage, private equity investors come in or mess around and all prior to a liquidity event. So we don't want to be at the later end of the train on such things.

Nikhil Pahwa:

Okay.

Arvind Rao:

That being said, it's also a question of replicating sort of the entrepreneur's spirit that we had in OnMobile when we started it. So we have no qualms in saying that "listen, the world of value-added services is going to be huge" and there's no way we can cover all of it. So in a few sectors where we feel that we're never going to get to it or we can't

have it in-house for whatever reasons, that we incubated, we create a platform that can create a successful entrepreneur because it gives us some pride as well making sort of a mini OnMobile company successful, and then back out. And then we may decide and do it again with some other exciting players.

Nikhil Pahwa: In that case, would you be looking at yourself entering the mobile classifieds business if there is an opportunity and you incubated something there?

Arvind Rao: On what?

Nikhil Pahwa: Would you be looking at entering the mobile classifieds business?

Arvind Rao: No, no. Because we look at it this way. Right? Ver Se is following the same strategy as OnMobile in terms of being white labeled. So today, they provide the platform, technology-managed services and it actually comes under the operator's brand name. So we will continue to have a distribution partnership, which we do so that they can piggyback on top of us, particularly in very distant overseas market. But we have no intention of, that will be silly and stupid to do to incubate something and then exit, and then immediately go into it. First of all, it's not transparent, it's immoral, it's unethical, and it's not right. We're not going to do it.

Mouli Raman: Just adding to that. Actually, it was running on our development network, that is ODN that we had discussed about, it was actually running on that. So that way, we provide the distribution that we already have in the operators and we get a share of it.

Nikhil Pahwa: Okay. Last question, I was just curious about how you are placed with respect to TRAI's paper that they've released where they're mooting a flat pricing for premium SMSs and premium calls? Does that have any significant impact on your business?

Arvind Rao: No, we have not really studied in detail right now, but we are not very large in the premium SMS space at all. That's one. And the second thing is that, I think I'll have to read these things a little bit more carefully, but I really feel and I am of the view point that I don't think it is correct for a

regulator to be dictating prices in a market economy-driven industry. So, if they need to, they can define a floor which says that the pricing cannot be under such a level. And they can do that for either preventing predatory pricing or they can have a ceiling price, which makes sure that if people have a nobly position or something, they don't abuse it, strap undue market powers from consumers. They can do that sort of stuff, but they cannot determine or mandate that everybody shall price at this one particular price point. I think that's an incorrect view.

Nikhil Pahwa: Okay. I just had one small question. Just curious, you mentioned the Dilithium payout for this particular quarter, I thought the deal was in the following quarter. And in that context, what sort of a total impact can we expect from the payout? The other thing related to Dilithium is that how is their technology placed against what is called adaptive streaming? They have on-demand transcoding from what I understand.

Arvind Rao: Let Rajesh and Sanjay handle it.

Rajesh Moorti: Yeah. So, Nikhil, in terms of your question on cost, these costs which are taken to the P&L are the pre-acquisition costs, the legal expenses and other kind of stuff.

Nikhil Pahwa: Okay.

Rajesh Moorti: What you've talked about is really a CAPEX item, so CAPEX will get depreciated over a period of time.

Sanjay Uppal: Yeah, I think your question was do they have adaptive streaming in addition to real-time transcoding and answer to that is yes. In fact, that's one of the hallmarks of what we believe is going to be required because the network conditions could deteriorate fairly rapidly and you need the ability to be able to sustain a certain level of quality depending on what deterioration is in the network.

Nikhil Pahwa: Also so you think that the on-demand transcoding is placed more favorably as compared to adaptors?

Rajesh Moorti: No. What I'm saying is that it depends on what the nature of the network is and the application and you might need one or the other depending on what the conditions are. So if the conditions really deteriorate extremely rapidly, you may

not want to use a particular type because the real-time transcoding is really trying to address the heterogeneity of all the handsets that are out there. On the adaptive streaming, the conditions on the network might change in which case you need to adapt.

Nikhil Pahwa:

Okay. Thanks and all the best. Thank you.

Rajesh Moorti:

At this stage, let us take one last call.

Moderator:

Our next question is from Surabhi from Morgan Stanley.

Surabhi Chandna:

Hi, thank you for the opportunity. Just wanted to check one thing, you earlier broke up the other income, could you please recap them? Sorry I missed that.

Rajesh Moorti:

Yeah, other income in this quarter is partly related to the 8% stake sale that we have done in our associate company Ver Se.

Surabhi Chandna:

Could you quantify the amount?

Rajesh Moorti:

Roughly 10 crores.

Surabhi Chandna:

Okay. Thank you.

Moderator:

Thank you, Surabhi.

Arvind Rao:

By the way, Surabhi, just to put it in perspective the Ver Se investment that we made almost about I think, it was two and half years ago. The total investment from OnMobile to date has been 5.5 crores. So in this last stake sale, we sold roughly about 7 or 8% stake and we recovered 10 crores of capital from that. So that gives you an indication of the returns on the investment.

Arvind Rao:

Yeah, Okay. So let's close it. Thank you very much for joining, everyone, and if there are any further questions, please feel free to call Rajesh, Praveen or any of us or you can email us as well. Thank you very much.

Moderator:

Thank you, sir. That does conclude our conference for today. Thank you for your participation and you may all disconnect now.