

The **SMART INVESTOR**

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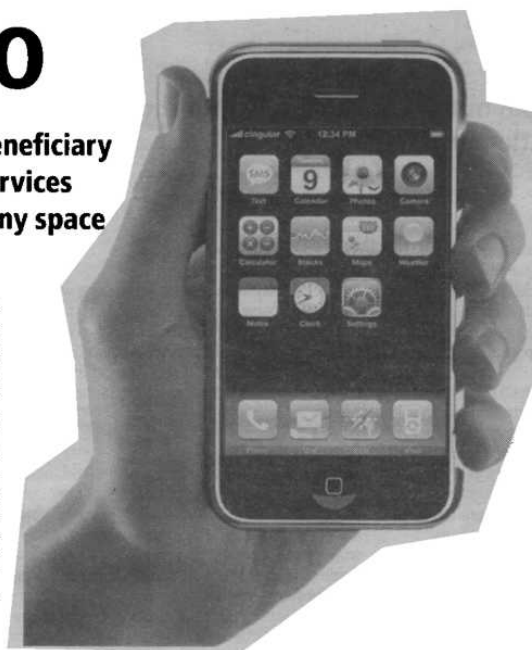
**OnMobile will be a major beneficiary of increased value-added services usage in the mobile telephony space**

**RAM PRASAD SAHU**

As telecom operators struggle to improve their declining average revenue per user metric due to falling tariffs, one area they would depend on to arrest the trend is mobile value added services (VAS). The VAS market in India, which comprises non-voice services like messaging, ring back tones (RBTs) and information services, is currently pegged at around Rs 6,200 crore. Growing at 37 per cent annually, this segment is expected to touch Rs 55,000 crore by 2015, estimates Frost and Sullivan's Sourabh Kaushal, principal consultant, ICT, South Asia and Middle East. Among a few listed entities, which are a play in this fast-growing segment, is Bangalore-based OnMobile Global.

**The VAS market**

OnMobile is focussed on aggregating content, developing applications and providing a delivery platform for operators. As a service this forms the intermediate layer in the VAS value chain. At the bottom of the chain are content generators and owners (Mauj, Sony Music, Yash Raj Films). Higher up, are content aggregators, technology enablers (Bharti Telesoft, OnMobile) and finally the telecom operators. While the market for VAS is large, about half of the revenues come from short messaging services (SMS) and these are managed by mobile operators themselves. But, analysts believe that with the advent of 3G, mobile commerce and corporate advertising, the share of SMS which is not a focus area for OnMobile, will come down to around 45 per cent.



**New markets**

Last week, the RBI doubled the amount subscribers could receive through a mobile transaction per day to Rs 5,000. With the central bank planning to enable transfer of funds from one bank to another on a real-time basis through this medium, the market for mobile commerce is likely to open up manifold. In addition to mobile commerce, OnMobile has a strong roster of products in areas such as RBTs, voice-based infotainment content access and business support solutions such as phone backup.

With the market moving towards bandwidth intensive technologies and value added services, the company's two French acquisitions, Vox Mobili in July 2007 for Rs 140 crore and Telisma in July

**ROBUST PROSPECTS**

| Rs in crore | FY08   | FY09E  | FY10E  |
|-------------|--------|--------|--------|
| Net sales   | 261.81 | 389.25 | 564.41 |
| EBDITA      | 104.83 | 132.35 | 180.61 |
| Net profit  | 60.31  | 85.64  | 112.88 |
| P/E (times) | 35.50  | 28.74  | 21.80  |

E: Estimates

2008 for about Rs 78 crore will come handy. Vox Mobili has phone backup products that allow subscribers to store their personal information on the network. Four Indian operators (Airtel, BSNL, Vodafone, Idea) have signed up or gone live with the product on a revenue share model with OnMobile. The company prefers revenue share to the licensing model as the former offers higher upside over a period of time as the application gains popularity, though licensing leads to higher upfront revenues initially. Telisma, the company's other acquisition, is a specialist in speech recognition which will not only help it to improve the accuracy and quality of existing language deployments in the country but also expand in overseas markets.

**Revenue prospects**

OnMobile is also pinning its hopes on advertisement ring back tone, which plays the ad of a company instead of normal ringtone. Says Pratapa Bernard, head of marketing & product management, OnMobile, "Ad ringtones have a much higher revenue potential compared to bulk messaging advertising solutions in vogue today." Revenues from this segment are split between OnMobile, the operator and, in some cases, the customer who might get higher talktime. Currently, network based in-call solutions such as caller ring back tones contribute 45 per cent to OnMobile's revenues, while voice-based information access and downloads contribute about 41 per cent. Data services such as phone back up and m-commerce take up the rest. While in the short term, RBTs will continue to bring in the bulk of revenues, in the long run, analysts believe internet access and data services will see more action. While the company has introduced some innovative solutions such as one touch RBT (allows users to copy ringtones on to their mobile phones by pressing \*), mobile radio and mobile search solution last fiscal, it is likely to launch data and GPRS-based services to cater to applications for top-end handsets.

**Investment rationale**

OnMobile's revenues have grown nearly 100 per cent annually since FY04 to Rs 261 crore in FY08 and operating and net margins are hovering at 35 per cent and 22 per cent, respectively. While the past performance and cash of Rs 200 crore in the balance sheet post Telisma acquisition is a source of comfort, future growth prospects will depend on the company's ability to offer innovative products and their acceptability in the market. At Rs 426, the stock is trading at 21.8 times its fully diluted and conservative FY10 EPS of Rs 19.54. While this may appear to be high in relation to the broader markets, the strong growth outlook provides comfort. Expect over 40 per cent returns over the next 18 months.

