

OnMobile Global Limited

Investor Conference Call

1st August 2008

Operator:

Thank you for standing by and welcome to the first quarter 2008-09 OnMobile Investor Conference Call, presented by Mr. Arvind Rao. 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 please press “star” “one” on your telephone.

I would like to hand the conference over to your speaker now. Over to you, sir.

Arvind Rao:

Thank you very much. This is Arvind Rao from OnMobile. I'd like to welcome all our Investors, Shareholders as well as Analyst and Fund Managers on this call. The first quarter results for OnMobile, you all have received the copy of the earnings release. But before we get into the numbers, I just wanted to go over a few major business developments that have transpired in the quarter, to set the context for the numbers.

The first thing that is the largest thing that happened this quarter was we completed the acquisition of a French company called Telisma, which is one of the leaders in natural language speech recognition. This company is a spinout from France Telecom and they have access to several very powerful patents in the speech recognition area. This company has been around for about seven or eight years in France and they have got live deployments with several customers. So the technology is well validated.

We have been looking for acquiring this technology for sometime, because, in the past we have sourced this technology from a US supplier by the name of Nuance. While that has worked really well for us, as we go forward, we see huge opportunity to develop new IP (Intellectual Property) for which we would like to have the capability to develop and own the IP.

Formally, we were just licensing it from Nuance, now that we have acquired Telisma, when we develop new language models, whether it is in Malaysia or in Poland or in Brazil, those natural language models will actually be owned by us. So that is a huge development in the value of the company for us.

We completed the acquisition in this quarter. We have got the numbers down here. We bought it for roughly around 12 million euros. And we are in the process right now of embedding their technology across all our deployments with our existing customers and also developing new models for new customers. So that's a very exciting development and we are really looking forward to this, which will give us a competitive differentiation and advantage against other competitors in our space.

The second thing is that the French company that we had acquired before this called Voxmobili, which does phone backup we have had significant success in signing up large

customers for their phone backup products. So for example we have gone live with Airtel and BSNL in India. We had signed up with Vodafone and Idea. Overseas, we have signed up with Maxis, with Indosat, with Esia and several other customers like Grameen in Bangladesh, Dialog in Sri Lanka.

All these phone backup deployments are coming on stream as we speak. But they are following a different business model, which is our classic revenue share model. This ranges over a four or five year period and the revenue share varies anywhere from 25 to 35%. So although, the revenues will take time to ramp up over a period of four to five years, the revenues will be significantly higher than the licensing model that Voxmobili was following when we bought them. So we are happy with the progress of the position and it's tracking extremely well in our strategic plan.

The third major development was we launched a very significant product called AdRBT and this product, which is being launched with one of the large Telco's in India, Vodafone, is when you call somebody you can hear music today or you hear a tring-tring. In the world of the future you may actually hear an ad.

And the ad will be profiled based on the calling party and the called party and the operator. And the business model over there will be different, because there will be advertisers paying for it. So we are opening up a completely new market, which is extremely large. This product is going to be innovative, it is a first off which is to be launch in India. We are the pioneers in that and we are hoping that we will ramp it up and deploy it across other operators as well.

In addition to that we have launched several products and we have signed up several new customers. I'll just do the customer part and then I'll hand it over to Mouli, to do the products. Mouli is our CTO and Co-Founder.

On the customer's side, we completed the deployment of ring back tones in one of the largest operators in India, Airtel. We had a competitive win, as a result of which, we have, covering five states, 20 million subscribers and 3 million active users, all those have now moved from another competitor's platform on to the OnMobile platform. So the revenues from this huge deployment will start kicking in this quarter - second quarter, third quarter, fourth quarter.

This is a largest competitive win back in ring back tone in the world. And we are very proud that our technical and operations team has been able to complete this deployment and cutover without any hitches whatsoever. It's a really -- from a technical standpoint, it's a very complex project and its testimony to our team that we could actually complete it.

We have also signed a new contract for ring back tone deployment in the largest telecom operator in Nepal. And we have been awarded LOIs from a large operator in the Middle

East as well as in Bangladesh and in Sri Lanka for development of phone backup. So we are making good progress on new customers.

On the products side, I will now ask Mouli to say a few words before we hand it over to Rajesh Moorti for the numbers.

Mouli Raman:

We have had some good developments on the product side. The first one is we launched MSearch on SMS in three large operators - in Vodafone, Reliance and TATA and we are seeing extremely good results from the product. The consumers are lapping it up. The next one as Arvind said, we have launched AdRBT. This is the first of its kind and while it will take sometime before it ramps up, we believe in this product a lot and we should see a lot more in the future.

The next one is the launch of the phone backup service in one of the leading telecom operators in India, which is Airtel. Towards the end of the quarter, we launched voice based MSearch. Before that we had launched SMS based MSearch. Voice based MSearch, the way it works is that, instead of sending an SMS, you call into a system for example, if it is caller tunes, the caller tune system and say a song name, any song name or a movie name and you can select the song and it becomes your caller tune. The key point here is that it has been very difficult for the people to select the song that they really want. They were selecting based on what has been presented to them. With this, using voice, they can say a movie name or a song name and select whatever they want. The initial results are very encouraging on this. These have been the major developments on the product side in the last quarter.

Arvind Rao:

Now we'll move to Rajesh Moorti our CFO to go with the numbers and after that we can take questions.

Rajesh Moorti:

Good afternoon everyone. We are happy to present the financial performance for this quarter ended June 30, 2008. The consolidated revenue for a quarter was Rs. 863 million as against the full year revenue, last year's revenue of Rs. 2,693 million. The EBITDA excluding the other income was Rs. 209 million, which is around 27% of the total revenue, as against the full year EBITDA last year of around 40%.

The profit after tax was Rs. 152 million representing a 17.6% margin as against the full year profit after tax last year of 22.4%. There are couples of things that I want to highlight here. One is that historically the first quarter of fiscal year as seen us delivering around 17 to 22% of the full year revenues and profits. Our results in the first quarter of

the fiscal are inline with our full year guidance and our historical first quarter performance.

Secondly, there are two onetime expenses that have impacted our EBITDA. One is the Telisma acquisition related cost, Arvind told you about the completion of their acquisition on 1st of July. All the cost related to the acquisition, have been expensed out in the first quarter. And as you have seen from our annual report, we had a deferred payment liability related to purchase of Voxmobili shares and that was paid out during this quarter. And the impact of the Euro fluctuation related to the earn out related payment has also impacted our operating cost.

Without these onetime expenses, our profit after tax would have been around 21% and our consolidated EBITDA would have around 34%. The one last item that I have to highlight is that as mentioned in the previous conference call, we have changed the revenue recognition policy in Voxmobili to a percentage completion method. However, it will not completely eliminate the cyclical impact because of the underlying nature of the business, where the business cycle begins in January and ends in December.

With that we are now open for any questions.

Operator:

The first question comes from Ms. Diviya Nagarajan from JM Financial. Please go ahead.

Diviya Nagarajan:

Hi. Congrats on a good set of numbers. My question relates to some of the statements you made in your press release. Particularly, in relation to the marginal drop that you expect in your profit after tax in the short run. Does this mean that we are looking at a lower profit than we were expecting earlier. Could you clarify on that please?

Rajesh Moorti:

This relates to the Telisma acquisition. Telisma as, Arvind mentioned earlier it's an acquisition of speech recognition technology, both for the future products and enhancements. Telisma has marginal losses as of now and when you consolidate from the July - September quarter that would impact our quarterly numbers in the short run.

Diviya Nagarajan:

Right. What has been the impact on the top line from Telisma this quarter?

Arvind Rao:

No, Nothing.

Rajesh Moorti:

We completed the acquisition on 1st of July, so the June quarter numbers do not have any Telisma impact at all, other than the acquisition related cost.

Diviya Nagrajan:

What is the impact that you expect for the rest of year from Telisma, if any?

Rajesh Moorti:

It could be around on the full year consolidated numbers, it could be between say 0.6 to 0.8 % PAT impact.

Diviya Nagrajan:

Right.

Arvind Rao:

And the whole purpose of you know, unlike the earlier acquisition that we had done which was Voxmobili, that was done very clearly for a products stand point. That was the company that had a very clear set of products, revenues and customers. So over there the way we've managed a metrics from that acquisition, is we have looked at what was the proforma that they gave us at the time of the acquisition. And have we been able to improve on that post acquisition, which we have. In the case of Telisma, we are not really buying a product. We are buying a technology, think of it as, supposing you are selling laptops and you are going out and buying a company that makes much better CPU chips, right. So it gets embedded in your technology, your overall product is much stronger with much better competitive differentiation. But it's going to take awhile for you before the impact of that is reflected in your top line and your margins.

Diviya Nagrajan:

Fair enough. But....

Arvind Rao:

It's slightly longer for Telisma to have an impact than Voxmobili is.

Diviya Nagrajan:

No. I am just trying to understand, if Telisma has any going revenues at the time of acquisition?

Arvind Rao:

Yeah, they had revenues of around 3 million Euros, okay.

Diviya Nagrajan:

Okay.

Arvind Rao:

But again those are licensing revenues. Going forward the purposes of Telisma is going to be two fold. They are going to be focused on external customers, but in addition they will have one very large new customer and that's OnMobile.

Diviya Nagrajan:

Right.

Arvind Rao:

Right. For the one key purpose of buying them strategically is to substantially increase the revenue potential of all our products.

Diviya Nagrajan:

Right.

Diviya Nagrajan:

Yeah. Sure. Could you also, you said you have launched -- congrats on your AdRBT launch this quarter? I understand this is a trial launch, but could you give us a sense on what the initial respond has been? What are the challenges that you're facing with this and what do you expect the initial respond to this could be?

Arvind Rao:

Yeah. On the AdRBT front again, you know, with mobile advertising quite clearly the biggest unknown is the consumer reaction and potentially consumer backlash. As a result, of that we have gone extremely slowly and gently in terms of soft launching it and testing consumer response so far. We are still in the phase of doing that, so I don't think any early results are very representative. But on the other hand in our internal business cases and stuff, we believe that if AdRBT is taken to its full extreme and its full potential in India alone that one service could be as large as 1/4th or 1/5th the size of the ad industry today. It's extremely large, now how much of that really translates into revenues and in

what timeframe, it's very difficult to predict, right now. We'll have a much better handle on that within the next quarter, once we have got our initial consumer test done.

Diviya Nagrajan:

Right. Have you tied up for AdRBT with any other telecom operator?

Arvind Rao:

We are in discussion with three others and you know again, given the strength of our customer relationship, I don't want to be forward looking or anything, but you know we feel fairly confident that we will be able to roll it out across several other telcos.

Diviya Nagrajan:

Right. Finally, I just to want to clarify on your PAT guidance, again. Earlier guidance was we would maintain PAT within a narrow margin of around 1 to 2% over the last year, right?

Rajesh Moorti:

Yeah.

Diviya Nagrajan:

And we have also said that the reported PAT for 1Q would be within the 17 to 22% of the full year PAT, right?

Rajesh Moorti:

That's right.

Diviya Nagrajan:

So, if you are looking at 17 to 22%, then the PAT guidance implied comes to 23% to 59.5%. Does that mean that we are looking at slightly more subdued PAT number because of the impact that we've had in this quarter, because of the one-time acquisition cost?

Rajesh Moorti:

What we had said earlier is that our guidance is 60 to 65% revenue growth and maintaining the margins, last year margins also had one-time impact.

Diviya Nagrajan:

Right.

Rajesh Moorti:

We are not deviating from the earlier guidance.

Diviya Nagrajan:

Okay. So you expect margins to improve going into the year?

Rajesh Moorti:

Except to the extent as I said about Telisma now.

Diviya Nagrajan:

Right.

Diviya Nagrajan:

Sure. Thanks and all the best for the full year.

Rajesh Moorti:

Thank you.

Operator:

Thank you, ma'am. Next in line, we have Mr. Sandeep Shah from ICICI Securities. Please go ahead, sir.

Sandeep Shah:

Yes. I totally understand that the business can't be compared on the sequential basis. But just looking at the results of the other telecom companies like Bharti, Reliance and Idea, the expectation of the telecom analyst, the data revenues excluding non P2P, has been registering a double digit growth. But this quarter our VAS revenue has almost been flattish. So any reason why this is been witnessed with us versus other operators growing higher?

Arvind Rao:

See it's a couple of things, first of all in the case of telecom operators, it's not exactly apples-to-apples.

Sandeep Shah:

Right.

Arvind Rao:

In many cases their growth in non P2P VAS is more linked to their subscriber growth, whereas -- because, you know, for example, there are whole bunch of things that they count. For example, if I look at GPRS or roaming which is also VAS from them.

Sandeep Shah:

Right.

Arvind Rao:

That is linked to subscriber growth, which is not exactly the addressable market which we target.

Sandeep Shah:

Okay.

Arvind Rao:

Right. So there are components of non P2P SMS which is not really addressable by us which is linearly linked to the subscriber growth. On the other hand, there are certain things. For example, right now, if I look at our AdRBT project, it's a very large project. And we have been working on literally for about a year. Now we were hoping that it would generate revenue last quarter and from a technical standpoint as well as the consumer market standpoint, that's slipped a bit. So we are looking at, you know, sometimes these things happen over a period time. We have very large a very lumpy projects and product launches, which move around a little bit. So on a quarter-by-quarter basis, we don't really get that worried.

Sandeep Shah:

Okay, but anything to read about in terms of a tariff decline for our products?

Arvind Rao:

We are not sensing that right now. We have actually gone and done a whole bunch of tariff, what we call a tariff rebalancing.

Sandeep Shah:

Okay.

Arvind Rao:

So instead of six rupees per minutes, there are various calls which are done at one rupee a minute, two rupees per minute. But they are also supplemented with subscription packs of 30 rupees a month and 50 rupees a month, so we have changed the pricing models substantially from what we used about year or two ago. And we have a product which is called subscription manager which allows different pricing models to be used very intelligently across all our products and we have deployed that in several customers which is allowing us to do it as a differentiated offering.

Sandeep Shah:

Okay. So looking at the mix of subscription as well as variable pricing you believe there is likely to be a pressure in terms of a margin for the OnMobile?

Arvind Rao:

No. I don't think that's going to be a basis for any form of a margin impact or margin squeeze.

Sandeep Shah:

Okay.

Arvind Rao:

If anything, what we are seeing is that, operators, who are our main customers, they control the pricing to a large extent, although it's done in a consulted manner. They are continuously monitoring the market and the new subscribers and evaluating whether it makes sense to reduce or change the pricing model such that P multiplied by Q actually increases.

Sandeep Shah:

Yeah.

Arvind Rao:

We have not people wanting to drop price that dramatically, although it's very obvious that in the long run, if the VAS market is to explode and achieve its true potential, the pricing may drop, but P into Q really will increase. And so as long as our business model

is revenue share, quite frankly we don't care whether you decrease price and you increase quantity or whether it's the other way around. So as long the total, the multiplied effect increases, we will be doing okay on our revenue share.

Sandeep Shah:

So as you witness with some of the Telco's reducing the variable pricing, is there any up move on the quantity or in terms of the volume?

Mouli Raman:

Yeah, for example, in cricket, where it use to be Rs.50 a series on getting alerts and listening to commentary, when it was dropped to Rs.5 a match instead of Rs.50 a series, there has been a very good uptake, that is, more number of users came in. As a result of it, the total revenues went up. While it is Rs.5 a match the total revenues went up because we got in new users.

Sandeep Shah:

Okay. So, is it the same kind of experience you are witnessing in the RBT or?

Mouli Raman:

In RBT, we introduced something called not enough funds, and that's what we are witnessing. But only one operator has launched dynamic packaging at this point in time, but to answer your question, yes, we're also witnessing the same thing in RBT.

Sandeep Shah:

Okay.

Arvind Rao:

Fundamentally to some extent, if use the analogy, it's basically using the shampoo sachet model. The only thing is that in the telecom space, we deployed it across so many different products across different Telco's. Technically it's very complex but we have got the technology in place and our technical team has actually been able to crack that.

Sandeep Shah:

All right.

Arvind Rao:

So, we are going to be doing it more and more and using pricing and micro pricing and micro billing much more effectively to counter the growth in the subscriber base going into the rural areas and where the ARPUs are lower.

Sandeep Shah:

Okay. Sir, now, just coming to international revenue excluding Voxmobili, can you share the numbers for this quarter as well as last quarter?

Rajesh Moorti:

In terms of the ramp up of international revenue, as we had also discussed last time, is that the sales cycle is much stronger. We have made progress whatever the new launches that Arvind talked about which will take some time for the revenues to kick in. But this full year, we are looking at both organic and inorganic put together, should be something like between 17 to 18% of the total company revenue.

Sandeep Shah:

Okay. And, just one more question. As we have now acquired Telisma, is there any cost saving because now we won't be paying any royalty or license fee to Nuance. So is there any cost saving on the COGS?

Arvind Rao:

No. Over the period of two or three years, yes, there will be a savings but is it going to be material? No. And the reason for that is because the licensing fee, that we were paying to Nuance in the first place were really not a material part of our COGS.

Sandeep Shah:

Okay.

Arvind Rao:

Okay. Again, I come back to, you know, when you do an acquisition you have to be very clear and very crisp in the objective of the acquisition and then be able to track against it. In case of Telisma, as opposed to Voxmobili, we are not really doing it for revenues, we are not really doing it for products. And we are certainly not doing it for costs.

Sandeep Shah:

Right.

Arvind Rao:

We are doing it much more for strategic differentiations and for helping us to enter into new markets. So for example, if we are talking to Telco operators in Poland or let's say we are talking to them in Malaysia. And we don't have a language model. We don't have Malay, we don't have Polish.

Sandeep Shah:

All right.

Arvind Rao:

So, when we go and talk to operator and to extract a good economic premium is very difficult if we don't have the technology and that's why Telisma is actually going to be very helpful for us in breaking into new international markets.

Sandeep Shah:

Okay. So, in terms of looking at the emerging markets, Telisma already has speech recognition software ready or it's likely to be developed?

Arvind Rao:

In several markets, they do have language model developed. For example in India, they already have about 10 language models that they have developed and in fact they are already live with one or two operators in India.

Sandeep Shah:

Okay.

Arvind Rao:

So, the technology is well established, proven and commercially deployed.

Sandeep Shah:

Okay. And apart from India like?

Mouli Raman:

Yeah. They have models for various countries. For example, they have Malay model, Thai model etc., but one good thing about Telisma is that the way, the product has been architected, it is very easy for us to develop newer and newer models. When we want to develop a new model, it is not very difficult for us to do it actually. For example, we are

in discussion with one large operator in South East Asian country. And within about two months or so we'll have a new model. That way, while they have, language models for certain countries, it is not very difficult for us to add new models.

Sandeep Shah:

Okay. And last on AdRBT, have we tied-up with any corporate or the advertisers?

Arvind Rao:

Yeah. We have tied-up with several advertisers and in fact we have signed a strong partnership with GroupM which is the probably the leading media buying company in India.

Sandeep Shah:

Okay.

Arvind Rao:

So we have signed up a preferred partnership with them. And they will be turning on all their clients and they have probably the largest client based of advertisers in the country.

Sandeep Shah:

Okay.

Arvind Rao:

So that entire base is going to be deployed, base for AdRBT.

Sandeep Shah:

Okay. Thanks and all the best, sir.

Arvind Rao:

Thank you.

Operator:

Thank you, Mr. Sandeep. Next in line we have Mr. Amit Tripathi from DNA. Please go ahead, sir.

Amit Tripathi:

Hello, Arvind. Sir, this is Amit here.

Arvind Rao:

Hi.

Amit Tripathi:

I just wanted to know from you, since now you just mentioned that you have a tie-up with Google. How recent is, for AdRBT?

Arvind Rao:

No. This is, I am sorry if I was not clear. This is tie-up with GroupM.

Amit Tripathi:

Okay.

Arvind Rao:

Okay. GroupM is a WPP company it's affiliated with Ogilvy and the WPP group.

Amit Tripathi:

Okay.

Arvind Rao:

They are the largest media buying entity in India.

Amit Tripathi:

Okay. And the other thing is, just to know from you whether -- see you already have M-Search you have voice based M-Search, right. So is there anything that you are trying to bring out in terms of search over phone or a phone search kind of thing?

Arvind Rao:

You know, probably it's not like you are thinking one step ahead of us, but you got the message right.

Amit Tripathi:

Okay.

Arvind Rao:

We cannot make a forward-looking statement. But I can tell you, that's clearly on our road map.

Amit Tripathi:

Okay.

Arvind Rao:

So you know again we have been the pioneering company in voice search. And you know we firmly believe that when somebody wants to search for something on the phone, you know the number of request from SMS or the number of request from WAP is probably one or two because it's difficult to use. We see that the number of requests from voice will be much, much higher.

Amit Tripathi:

All right.

Arvind Rao:

Right. And that's the market that we are going after. It started with voice search on music as a vertical because that's where the major interest of mobile user is today and results have been phenomenal, I mean, they are getting more than 1 to 1.5 million searches a day.

Amit Tripathi:

Okay.

Arvind Rao:

So really in terms of the searches that are done in India from other lead Indian search engines like MSN and Yahoo, Google, we are really way out there, at par or even ahead of them.

Amit Tripathi:

Okay, recently Google has launched a similar service, specifically in Hyderabad, but they have still not made it Pan India, that's in their lab actually. I mean its called Google phone search. Okay, so as user I would call up a particular number and they would search

things for me and in fact they would take me to that particular entity, which I am searching. So are you looking at something like this?

Arvind Rao:

Yeah. We have something similar.

Amit Tripathi:

Okay.

Arvind Rao:

The main difference really is that we are white labeled.

Amit Tripathi:

Okay.

Arvind Rao:

Unlike Google that is branding it as a Google voice search.

Amit Tripathi:

Right.

Arvind Rao:

The search that we will be offering will be embedded under the name of Vodafone, Airtel etc.

Amit Tripathi:

Right, there will be a carrier involved.

Arvind Rao:

Right, so really what you are doing with of our white labeled strategy is that you're marrying the technological superiority and the advancement of OnMobile to marketing muscle of the operators.

Amit Tripathi:

Okay. And in terms of your revenue, if you can give me a breakup as to so much is the revenue from our voice based search, so much is the revenue from your AdRBT, if you can give me something like that in the Q1?

Arvind Rao:

Yeah. See typically what we have done is, we have said that you know, we do it only on three dimensions. You know across RBT and all our in-call services, AdRBT today is negligible because we have just launched the service, so the currently it's not there today. And look at our RBT and missed call and all our in-call services, we are talking about you know 40 - 45% of our revenue today.

Amit Tripathi:

Okay.

Arvind Rao:

Voice, this services which includes you know cricket and ring tones and all, accounts for another probably 35 to 40%.

Amit Tripathi:

Okay.

Arvind Rao:

Balance really is on the data services in terms of on-device portals, phone backup that we have launched.

Amit Tripathi:

Okay.

Arvind Rao:

We don't give these product wise information below that.

Amit Tripathi:

And in terms of potential, if you can tell me that the voice based search is of this much potential across the world. Specifically, in India it is this much, can you give me something on that?

Arvind Rao:

To be honest with you, we have not dimensioned it as now because we are looking for what are the adoption rates, what are click rates, you know, so we can actually give some specific numbers. I think we will be in a better position to maybe give some indication within the next one or two quarters.

Amit Tripathi:

Okay. Now going forward another thing is that as you are going on the AdRBT thing in a big way. But as you just mentioned in reply to one of the earlier caller that you are going slow on AdRBT, probably on user backlash, like in our, say banking transactions or we get unnecessary calls from telecom companies cross selling of something. So I mean do you think there will be a hindrance there or will there be a mechanism, where, you will have to resister in do not provide me ads on my mobile or something like that. You know something like that will be coming up? Do you think?

Arvind Rao:

You know, we are very careful about... that's why the reason why we are going slow. Because first of all, we are making very sure that the program is on an opt in basis. Second thing is that we not want to your ads or under absolutely any circumstances and stuff, we have to in some provision where they can either block the ads, if they want to.

Amit Tripathi:

Okay.

Arvind Rao:

So we are putting in all these software conditions.

Amit Tripathi:

Okay.

Arvind Rao:

Same time, we don't want to make the service flow so that is difficult for our user to use it.

Amit Tripathi:

So it will be on the telecom carrier to make its users aware whether they want any particular kind of ad service or it will be a commuted kind of a ad service something like that?

Arvind Rao:

Well, at the end of the day because it's going under the operator's brand name.

Amit Tripathi:

Right.

Arvind Rao:

But a lot of the thinking, the strategic positioning the product definition is all being done by us.

Amit Tripathi:

Okay.

Arvind Rao:

They are doing a lot of market test, the consumer test and making sure what will work and what will not work?

Amit Tripathi:

So you are actually doing it.

Arvind Rao:

Typically we do all that and the operator focus is largely on promotion and marketing.

Amit Tripathi:

Okay.

Arvind Rao:

And that's what I mean they are involved with us at steps.

Amit Tripathi:

Okay.

Arvind Rao:

We take the lead in terms of doing it because that what's we specialize in.

Amit Tripathi:

Fine. So that was about it from me. Thank you so much.

Operator:

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

Srinivas Rao:

Hi, this is Srini here. Just wanted to couple of questions, you know, Arvind. One is the where are we right now in terms of operators in Middle East or Africa. Any color on what's happening there and in Malaysia and Indonesia because I think some deployments are happening there. If you can throw some light on that. And secondly once with this Telisma coming in would we replace the Nuance platform completely over the period of time?

Arvind Rao:

Okay. Let me answer your second question first because that's a little easier. We are probably one of the largest customers of Nuance worldwide for deployment of voice ports in telecom operators other than customer care.

Srinivas Rao:

Okay.

Arvind Rao:

So replacing that installed based is not going to happen overnight. That's point number one. Point number two is since to be this is a live system, which is handling you know 30 - 40 million users a month, we have to make sure that all the testing is done, the speech recognition models are accurate and representative and in fact improve what we have currently deployed, before we do the cut over, right? That's going to take a little bit of time as well to get done.

Srinivas Rao:

Okay.

Arvind Rao:

The third thing is that from a standpoint of suppliers, it always makes strategic sense to have more than one supplier on any core technology components, for example if you are IBM or if you are selling laptops, you will make sure that you have two suppliers who can supply you with CPU chips so from a negotiating standpoint and a pricing standpoint, you are getting the best deal.

Srinivas Rao:

Fair enough. Fair enough.

Arvind Rao:

So from that -- from these reasons, our immediate priority is as I said is not to really replace Nuance with Telisma, because that's not going to save us a lot of money. The primary purpose of Telisma right now is to get them to focus on developing new language models for many, many countries that we are going into. Yeah. And this leads us into the question you are talking about which is what are we doing in Africa. It's in very advance stage with a couple of large African operators, I can say that much.

Srinivas Rao:

Okay.

Arvind Rao:

And also in Middle East. In fact in Middle East we have already signed LOI, as I mentioned with one operator in UAE where we are replacing their ring back tone system with ours. Okay. And as you know, whenever a product is replaced that is much harder sell then a new product sale.

Srinivas Rao:

Absolutely, absolutely.

Arvind Rao:

On the other hand it is our testimony to the superiority of our technology and the market results that an operator can get from using it. That's why they replace. So the Telisma acquisition is going to be extremely, strategically important for us. In fact when we were doing our planning for getting into very large market in particular, you know, as we look at Latin America, Eastern Europe and Africa, these are very, very large markets that we are targeting. The Telisma acquisition is going to be a fabulous technology advantage to crack into these markets.

Srinivas Rao:

Fair enough.

Arvind Rao:

So you know this is all that happening in the next couple of quarters.

Srinivas Rao:

Any thoughts on Malaysia and Indonesia?

Arvind Rao:

Indonesia, we are already live big time. I mean its one of our largest country plays outside India. We are live with probably three out of the five top operators. We are in advance discussions with the balance two operators. There is a good chance that we actually will be able to replicate our complete India strategy in Indonesia. And in Indonesia, we have actually launched the Bahasa language model. So that's the first case, you know, we have also done it with Urdu in Pakistan and Bengali and Bangladesh and couple of other countries. But it's really a testimony to our ability to develop a foreign language model and deploy it with success in market like Indonesia.

Srinivas Rao:

Yeah.

Arvind Rao:

We are actually live with Maxis which is one of the largest operators in Malaysia. Those results are also going very well, we launched with them probably about, I think two or three quarters ago. So that's doing well and we are looking forward and they have asked us to keep increasing the products suit that we are live with. So that should be a good success for us as well.

Srinivas Rao:

Thank you, very much again. That was very helpful.

Arvind Rao:

Yeah. Thanks.

Operator:

Thank you, Mr. Srinivas. Next in line we have Mr. Amit Ahire from Ambit Capital. Please go ahead, sir.

Amit Ahire:

Hello, sir.

Arvind Rao:

Hi.

Amit Ahire:

Sir, I had two questions, one is regarding the AdRBT, as you rightly mentioned, I was just wondering, is it going to cannibalize the CRBT business because it's working in same kind of a platform? And second is regarding the 3G, the 3G policy recently, today only it came. So I just wanted to know are we as a company prepared to launch this product as an when the operator starts 3G services?

Arvind Rao:

Okay. I will take your first question on the AdRBT, the way we are planning the pricing of the AdRBT product, we are pricing it in a manner such that an active AdRBT user and an active RBT user will generate the same ARPU per month for a telecom operator and for us. So really, even if there is cannibalization, we really, you know, are non-affected. Let the market decide which product they want, which of the two they want, let the consumer decide. So long as we are indifferent and we are not suffering an economic penalty, you know, we have no reason to stop the market from or secure the market in terms of product mix.

Amit Ahire:

Okay.

Arvind Rao:

Okay. That's the AdRBT side; your second question was...

Amit Ahire:

Regarding 3G, sir.

Arvind Rao:

Yeah. Regarding 3G, to be honest with you, we have a few deployments and a few product launches underway, I'll ask Mouli to just take that. Yeah. 3G, It's going to be sometime before it happens in India, but what we are doing is that we have launched a couple of products in other markets like Australia and Malaysia. So basically we made it work in those countries and as and when it's available in India, we will make it work in India.

Amit Ahire:

Okay, sir. Thank you.

Arvind Rao:

Thank you.

Operator:

Thank you, Mr. Amit. Next in line, we have Mr. Mitul Mehta from Lucky Securities. Please go ahead, sir.

Mitul Mehta:

Sir, just wanted to know the breakup of the other income for this quarter? In the consolidated numbers the other income is about 8.5 crores, if you could give us the breakup of this 8.5 crores?

Rajesh Moorti:

8.5 crores is the income from the investment that we have in the money market mutual funds. The money that we raised from IPO is deployed in debt instruments and this is the interest the dividend income from those securities.

Mitul Mehta:

Okay. So when you talked about the Telisma cost, acquisition cost which you have expensed, you said the consolidated EBITDA would have been 34% and my calculation was showing that EBITDA margins are currently about 27%. So have I got it right, that the difference between the consolidated EBITDA without the Telisma cost is 27%?

Rajesh Moorti:

Yeah. It is right. So whatever we have published in the results, shows 27% EBITDA.

Mitul Mehta:

Okay. And you are saying it should have been 34 or 7% of 77, it means we have spend 6 crores on the acquisition?

Rajesh Moorti:

Not only acquisition, there is a euro loss also which I have talked about.

Mitul Mehta:

Okay.

Rajesh Moorti:

All put together it has an impact of around 7%.

Mitul Mehta:

7%. Okay. All right, sir. Thank you very much.

Operator:

Thank you. Mr. Mitul. Next in line we have Mr. Sumit Poddar from Birla Sunlife. Please go ahead, sir.

Sumit Poddar:

Yeah. Congratulations on the results. I just wanted to understand a bit more on AdRBT. I mean, how the model will work? I mean, who will be approaching the advertisers? Is it the telecom companies or us?

Arvind Rao:

Yeah. As I said, we have a relationship, a partnership signed with GroupM. GroupM is a best known and the largest media buying entity in India. And almost all the large advertisers are clients of theirs.

Sumit Poddar:

Okay.

Arvind Rao:

So they would be approaching there clients on our behalf. It's a far more efficient mechanism than us trying to do it on our own. So there is no need for us to really go out and do it.

Sumit Poddar:

Okay.

Arvind Rao:

On the other hand, there is one other aspect of the AdRBT product which I want to talk to you about, which I am very excited about, which is, it will have a web interface whereby local merchants, very small merchants, restaurant owners, shopkeepers can have ads playing of their products in the neighborhood of where their locality is.

Sumit Poddar:

Okay.

Arvind Rao:

And they can actually pay for those Ads for a limited period of time by going to a website. It's like Google, which find out keywords.

Sumit Poddar:

Right.

Arvind Rao:

Right. So let's say you are a shopkeeper and you are selling something here. You know, you go and say, you call a number or you go to a website and say I want an ad for my products and here is the ad. You record to add yourself. Say, I want this ad playing for all either Vodafone or Idea Cellular users in my locality.

Sumit Poddar:

Okay.

Arvind Rao:

Locality could be the locality from which the person is calling, the shoppers are calling. We know where the person is calling from.

Sumit Poddar:

Okay.

Arvind Rao:

Okay. So it opens up the long tail of local advertising.

Sumit Poddar:

Right.

Arvind Rao:

Otherwise, it's just not possible and if you are a small shopkeeper or a restaurant owner, it's not an efficient manner, it is not an efficient mechanism for you to buy an ad in the newspaper or something which is broadcast to people all over the city.

Sumit Poddar:

Right.

Arvind Rao:

All these people will never come to your shop...

Sumit Poddar:

Right.

Arvind Rao:

This is far more local and high efficient advertising. It's completely new model and we feel that will hugely expand the advertising market in India.

Sumit Poddar:

Okay. The ad will be played to the caller?

Arvind Rao:

Yes. The calling party.

Sumit Poddar:

Okay. Okay, so wherever he calls. I mean, he will be listening to the same ad?

Arvind Rao:

No, he will be listening to different ads.

Sumit Poddar:

Okay.

Arvind Rao:

Okay. It depends on who he is calling, as well. So it's like it depends on the caller, the call party as well.

Sumit Poddar:

Okay. Just wanted to understand if you could elaborate more on this as such. How would this be setup?

Arvind Rao:

Yeah. In this case, in the first version of the product, the called party, which means, let's say, you say that I am willing, in return for some gratification, where I get some free SMS or I get some free ring tones, in return for this gratification from the operator, you are allowing the operator to place ads on your "Tring Tring."

Sumit Poddar:

Okay.

Arvind Rao:

So anybody who calls you hears the ads.

Sumit Poddar:

Right.

Arvind Rao:

Right. Now, which ad is played, it depends on your profile and it depends on the profile of the person calling as well at a later stage.

Sumit Poddar:

Okay. Okay.

Arvind Rao:

Actually, it will be just on the called party. It's a point once we do the profiling it will be on the calling party as well.

Sumit Poddar:

Right.

Arvind Rao:

Right. And the location is the third dimension.

Sumit Poddar:

Right.

Arvind Rao:

That it can be tailored.

Sumit Poddar:

Okay. Okay. And there are no privacy issues in such kind of thing. I mean because you guys are taking the location and things like that of the calling party or the called party?

Mouli Raman:

At this point in time location is not very specific; it is not current location of the user, and it is more based on the prefix of the number. You can make out which state and which city they are from right. So that is the way we are doing it.

Sumit Poddar:

Okay. Okay, Right. Thank you so much and all the best.

Mouli Raman:

Thank you.

Operator:

Thank you, Mr. Sumit. Next, in line we have Mr. Nikhil Pahwa from Medianama. Please go ahead, sir.

Nikhil Pahwa:

Hi. Just wanted some color on the impact of your deployment of RBT for the largest operator. You said that it completely replaced the incumbent? So how much do you think that will contribute to revenues going forward?

Arvind Rao:

Okay. Couple of things here. First of all we are replacing them in one of the zones which is the South zone, right. So it's not a all country replacement. That is point number one. Point number two is, you know, we cannot release the specific details you are asking for because it's customer confidential information that we are not giving, but it will be a significant contributor going forward.

Nikhil Pahwa:

Okay. And also in terms of the recent acquisitions that you have made, will it have any impact on the dependency on the revenue shares on the operator, it was about 90 to 95% earlier what you mentioned initially?

Arvind Rao:

Sorry, I am not following that, could you please just elaborate...

Nikhil Pahwa:

Your dependency on the revenue share business is about 90 to 95%, if I remember correctly from the last few quarters. You had mentioned that in your IPO prospectus also. So do you see that declining?

Arvind Rao:

No, in fact, if I look at our earlier, the first acquisition we made in Europe which is Voxmobili, they were actually following a licensing model. When they went to a customer, they would do a one-time licensing sale. We have actually shifted them from that at least in the Asia Pacific region to a revenue share model. The reason is very simple. The revenue share model is fundamentally far more robust because of two reasons. One is it gives recurring revenue so the revenue visibility is high and the partnership with customers is long term contracts and not one time. The second thing is, over the life of a customer engagement, let's take one customer, if we were to go and do phone backup in operator X in any country. If we were to do a single one time licensing model and we got say \$2 million from that, the same products from the same customer over a period of five years on a revenue share basis would generate more like 10 to \$12 million.

Nikhil Pahwa:

Okay.

Arvind Rao:

Right. So there is significant upside even though the up side is backend loaded. So this is one of the things that we have to, you know, make sure that all our investors understand. If we go and sell phone backup, let's say as a product example into 12 new customers, it is going to take three or four quarters before the real revenue impact of those sales comes into effect.

Nikhil Pahwa:

Okay. Also about your voice portal business now, I didn't quite understand what the implications of the acquisition of Telisma will be on the revenue side. And how much does the voice portal business currently contribute to your revenues?

Arvind Rao:

Voice portal currently is around 40% of revenues.

Nikhil Pahwa:

Okay.

Arvind Rao:

You know, the Telisma contribution is actually going to come in two ways. One is, it's going to help us increase the accuracy and the quality of our language models on our existing deployments. So that's not going to result in any new revenue per se. Although, we hope that the increased quality will result in some incremental traffic. But more importantly, as I said, by developing completely new language models for us in countries in Africa, in Latin America, Western Europe and Eastern Europe, by developing those language models that will give us entry to actually go and crack open some very large overseas markets which are otherwise difficult to open up.

Nikhil Pahwa:

Okay. Makes sense. Also at present, what part of your revenue is actually coming from overseas?

Arvind Rao:

Today it's about 15 - 16%.

Nikhil Pahwa:

Okay. You've mentioned that you've done a test for the AdRBT, any indication or any trends that you've noticed during those tests?

Arvind Rao:

It's too early to tell. Actually, it's not just one test. You know, what we are doing is we're trying a lot of combination and permutations of, you know, gratification and where to play the ad, how to build the ad blocking to make sure there is no consumer privacy effect etcetera. So it's a bit early to tell. I think another one to two quarters, we'll have much more visibility on this product.

Nikhil Pahwa:

Okay. Also on the client front, what is the revenue contribution of your top five clients. It was about 75% last time, so has that changed?

Rajesh Moorti:

It has not really changed.

Arvind Rao:

On a quarter-to-quarter basis, these things don't change much. I mean, on a full year, that's the relevant way to look at it.

Nikhil Pahwa:

Okay. Thanks.

Arvind Rao:

Fine. Thank you.

Operator:

Thank you, Mr. Nikhil. Next in line, we have Ms. Neha Idnani from Angel Broking. Please go ahead, ma'am.

Neha Idnani:

Good evening everyone. Sir, one question for you. We have a very thin line between the telecom operators and us, especially since, I mean, we are generally the price takers. As in the revenue share is something that we are going to be arguing upon and also the fact

there are lot of things telecom operators have their in-house vas companies. So how do you see this relationship going ahead and do you think that this revenue share model would increase in that pie and how do you see it going ahead?

Arvind Rao:

Yeah. Couple of things here. First of all, clearly when we started the company about six to seven years ago, were we at a higher revenue share than today. The answer is yes.

Neha Idnani:

Okay.

Arvind Rao:

But the initial drop in revenue share and all that was largely done as a result of volume discounts, which makes sense.

Neha Idnani:

Okay.

Arvind Rao:

If we look at it today, we are handling 6 billion calls a month. Billion, that's with a B.

Neha Idnani:

Okay. Yes.

Arvind Rao:

And 50 Million unique users a month, whereas five years ago, we were hardly handling 10 million calls a month and three or four million users.

Neha Idnani:

Right.

Arvind Rao:

It cannot go from A to B and not expect customers to ask for some volume discount.

Neha Idnani:

Right.

Arvind Rao:

So in the spirit of fairness, we have given volume discounts across the board based on customer volumes. These have more or less stabilized in the last year or two years.

Neha Idnani:

Okay.

Arvind Rao:

While there was a initial drop, we have not seen any real pricing pressure in terms of the revenue share move in the last year or so.

Neha Idnani:

Okay

Arvind Rao:

Now, we have customer that came online much later than some of the earlier customers and therefore achieved critical mass a little later. We'll have a revenue share drop which is more recent so to speak.

Neha Idnani:

Okay.

Arvind Rao:

But we have not seen any significant pressure from customers and in fact, the beauty about it is that with the revenue share model, it's not really price. When we go around and talk to customers today, at least at the CEO, CMO level and stuff. I have not had a single customer talk to me about price. The only thing they talk to me about is, two things, how many more products do you have developed and what can you give us tomorrow to launch, because we are hungry for more revenue, anything that you produce we are ready to launch.

Neha Idnani:

Right.

Arvind Rao:

And the second thing they tell me is, what can we do in terms of tweaks, in terms of micro marketing tactics, because these are feature changes to increase the revenues. That's all we talk about.

Neha Idnani:

Okay.

Arvind Rao:

And so long as we can maintain the revenue momentum that we are delivering to each customer, it is unlikely that they will sort of try to pressure us on the revenue share. This is not really a cost game. This is a really a revenue and a very high growth game right now.

Neha Idnani:

Right. And sir, how is their in-house VAS, I mean how do they look at their in-house VAS companies in comparison with OnMobile

Arvind Rao:

See, many operators, again it depends if there is a range, at some extreme you have operators, who are outsourcing or doing almost everything to the third parties.

Neha Idnani:

Right.

Arvind Rao:

On the other hand, you have a couple of operators particularly the well capitalized and larger players who either have a tendency or want to do somethings in-house for various reasons whether it is competitive or strategic or differentiating, you name it.

Neha Idnani:

Right.

Arvind Rao:

So we have not seen, so far, any market share shift or loss in our business. As a result of in-house operations, where there have been in house operations, for example we know, reliance is a very large and very good, well functioning, R World operating unit

Neha Idnani:

Right.

Arvind Rao:

Now that unit is in data services and on the CDMA platform. That's not an area where we have large number of products the way we compete. So many of these in-house services are actually complementary to what we do rather than overlapping.

Neha Idnani:

Okay. Sir, it just seems that it's such a huge pie that, you know, I fail to understand how telecom operators would want somebody else to first of all take a huge portion of the pie. You have the IT companies like Wipro and Infosys who would not venture in a big way into this particular industry?

Arvind Rao:

You know, I mean, it's a new industry, it's an emerging industry.

Neha Idnani:

Okay.

Arvind Rao:

We are the front runners. We have to run as fast as we can to stay ahead of these big giants who may try to chase us.

Neha Idnani:

Right.

Arvind Rao:

But in direct response to your question, you know, there are some fundamental characteristics of the value added services industry and our company, which are uniquely different which will give us a leg ahead. The first one is, for example, is a blinding focus on product innovation and intellectual property.

Neha Idnani:

Right.

Arvind Rao:

Some of the companies that you talked about, the large companies like Wipro and Infosys, they are very good company, but their processes, their business systems, their skills, philosophy of revenues and business models, they are towards services as opposed to products.

Neha Idnani:

Right.

Arvind Rao:

So it's not really a direct overlap with many of these players. On the second hand, the other angle is that we now have a huge critical mass.

Neha Idnani:

Right.

Arvind Rao:

Because we are way ahead of the pack, we have got such a large volume of users who are using our services and generating data, we can use for cross selling, for marketing. The value of that data is actually exponentially growing month-on-month-on-month.

Neha Idnani:

Right.

Arvind Rao:

Only we and telecom operator are privy to that data.

Neha Idnani:

Okay.

Arvind Rao:

That gives very unique advantage, I mean, if I use an analogy. If you look at eBay today, for example.

Neha Idnani:

Right.

Arvind Rao:

The software code for the eBay website can be replicated by some good engineers sitting in a room for two months.

Neha Idnani:

Okay.

Arvind Rao:

So why aren't 50,000 new eBays coming up? It's because they are so far ahead and the critical mass that they have developed in terms of the viral market is feeding on itself and it's very difficult for any new entrant to come and take share away from them.

Neha Idnani:

Sir, so would we say that in the analogy that you gave, we would be as far ahead as eBay is?

Arvind Rao:

I wish I could say that. I am not saying that I like to be paranoid as much as I can.

Neha Idnani:

Okay.

Arvind Rao:

To make sure we are ahead, you know, but the fact is that we are way, way ahead of competition. If I look at some our largest customers, if I add up all the competitors who are present in the customer...

Neha Idnani:

Right.

Arvind Rao:

...their combined volume is less than ours.

Neha Idnani:

Okay.

Arvind Rao:

That tells you the scale at which we are operating within our largest customer.

Neha Idnani:

Okay. Sir another question that I have for you is in the more mature telecom market, is there anything like VAS and is it similar to what has kind of originated from India? And if so, would there be like a lot of international competition that we would face in the exports markets?

Arvind Rao:

Actually most of the developed markets, the nature of the value added services market is actually different from what we are seeing in India and emerging markets. In that, it is far more data centric and more mobile internet.

Neha Idnani:

Right.

Arvind Rao:

If I look at markets like in Europe and particularly in the United States, you know you have instruments like Apple's iPhone which has completely opened up the mobile internet space.

Neha Idnani:

Right.

Arvind Rao:

That's the function of an advanced handset and network technology which has much faster data speed, we don't have.

Neha Idnani:

Right.

Arvind Rao:

Because of that the nature of services is quite a bit different. So when we go into those markets with our product, we are not seeing that much of competition today.

Neha Idnani:

Okay. Sir, I mean, to the kind of product that we are launching, there are not more – I maybe wrong I am saying this but they are not applications based but they are more entertainment based, am I right in saying that?

Arvind Rao:

You are right in a way. Today they are largely focused on entertainment although we have several sort of utility, you know, one could argue and say that cricket is entertainment but I can tell you for a whole bunch of very loyal cricket users, it's a must have or a utility.

Neha Idnani:

Right, sir.

Arvind Rao:

It's not an entertainment anymore, it's a must have.

Neha Idnani:

But going ahead, I mean a lot of articles have been coming up on how the entire rural penetration of the telecom segment is going to be largely driven by value added services and specially application based. So could you like elaborate a little, I mean do you expect that to be the way it's being seen?

Mouli Raman:

Yeah. Rural is definitely a focus area for us.

Neha Idnani:

Okay.

Mouli Raman:

Couple of things. One is, the existing services, how do you price it and package it so that it is possible for us to reach to large number of users. That is one challenge where we are

doing fairly well. What we have realized is that entertainment is a necessity for everybody including the people in the rural areas.

Neha Idnani:

Right.

Mouli Raman:

We are pricing it and packing it such that we can reach over to larger number of people. That is one area and also there are host of new services that we are launching now which are catering to rural areas. For example, fundamentally we are trying to solve the problem of information asymmetry, that is, they don't have access to quality information. So how do you sort of give them access to quality information and let's say on finance, health and agriculture. So that way, one is existing service pricing and packaging. The second one is launching new services. We are working on both of them.

Neha Idnani:

All right. Okay. Sir, another question would be like we are basically serving an industry, you know, it's like a nascent industry which you all seem to be the front runners for. So strategically, I mean what are you doing to kind of be ahead and stay out of competition and generally, I mean what would be the path to form a completely new industry, like how do you look at that?

Arvind Rao:

Let's say that as you said earlier the fact that this is a high growth industry with, you know, in a large industry we always see a lot of new entrants coming in.

Neha Idnani:

Right.

Arvind Rao:

And so one is that we are continuously expanding on the features and the capabilities of our existing products to extend their life cycle as well as to extent their features, so that it results in higher usage.

Neha Idnani:

Right.

Arvind Rao:

For example, if I look at four years ago, people could call and only listen to a playback of cricket scores on our cricket application.

Neha Idnani:

Right.

Arvind Rao:

Whereas today they can get SMS alerts, they can access to live cricket commentary. They can even get wallpaper downloads.

Neha Idnani:

Right.

Arvind Rao:

So the same application is much richer in terms of features and usability.

Neha Idnani:

Okay.

Arvind Rao:

The second thing is, we are clearly, to stay ahead of the pack, our technical teams are being charged with just absolute product innovation which means we have to keep launching a new product every six months.

Neha Idnani:

Okay.

Arvind Rao:

Right. So that's the second way in which we are stepping ahead. And over there, really because of our scale, our relationship with customers, our understanding of the consumer market is much better than our competitors and new entrants and our ability to come up with better products which have higher usage is much better.

Neha Idnani:

Right.

Arvind Rao:

So the bigger you get, I won't say the easier it becomes, but you have an unfair advantage compared to new entries.

Neha Idnani:

Right. Right. I got that. Okay. Thank you so much.

Arvind Rao:

Thank you.

Operator:

Thank you, Ms. Neha. Next in line we have Mr. Kshitij Shah from Enam Securities. Please go ahead, sir.

Kshitij Shah:

Can you throw some light on the increased salary cost for this quarter?

Arvind Rao:

Yeah. The increments we did were keeping with inflations.

Kshitij Shah:

So would it be along the same lines going ahead?

Rajesh Moorti:

Sorry.

Kshitij Shah:

Would it be along the same lines going ahead?

Rajesh Moorti:

What we have done is that, we have a process of benchmarking the compensation with the industry segments that we opera in.

Kshitij Shah:

Yeah.

Rajesh Moorti:

Also the cost increases. And based on that the salary increases are given out.

Kshitij Shah:

Okay. So it's around 31% of the sales. So it only includes the salary increases of this quarter, right?

Rajesh Moorti:

Yeah. That's right. Quarter-on-quarter you can't really look at the manpower cost as a percentage of revenue.

Kshitij Shah:

Okay.

Rajesh Moorti:

The reason for that is our revenue is not uniformly spread across the year.

Kshitij Shah:

Sure.

Rajesh Moorti:

Last year it was around 25 – 26%.

Kshitij Shah:

Okay. Thanks a lot.

Operator:

Thank you, sir. Next in line we have Mr. Shreyank from Enam Securities. Please go ahead, sir. Mr. Shayank from Enam Securities, please go ahead. Sir, it seems there is no response. Shall I take up the next question?

Rajesh Moorti:

Yes.

Operator:

Thank you. Next in line, we have Mr. Nikunj Doshi from Envision Capital. Please go ahead, sir.

Nikunj Doshi:

Yeah. Good evening. Just wanted to know what is the kind of arrangement you have with the telecom service providers. What I mean is that, suppose voice portal or whatever you have, is it an exclusive arrangement with the telecom service provider wherein nobody else can offer that to the TSP or tomorrow somebody else can come and replace you?

Mouli Raman:

We have different product lines and it varies by the product line. For example, voice portal, it is possible for the operator to go with, I mean, to have a multiple systems. But if you look at it, all the operators, their main brand is power by us. But as in case of ringback tone, which is in the line of call, it is not possible for the operator to have multiple systems. So wherever we are live with RBT, we are the only partner.

Nikunj Doshi:

Okay. No, because my point is that, tomorrow somebody may come up with a lower revenue share and offer the same service.

Mouli Raman:

Yeah, the name of the game here is constant innovation. It is not possible for us to have a product and expect revenues to come in at the same level. So what we do is on an ongoing basis, we keep innovating and we then we keep putting a newer and newer features. That is how we maintain our revenue share and increase our revenue share.

Nikunj Doshi:

Okay. And right now, what kind of cash level do we have?

Rajesh Moorti:

Post Telisma acquisition, we have roughly around 200 crores in cash.

Nikunj Doshi:

200 crores. Okay. Thanks, thanks very much.

Operator:

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

Gaurav Malhotra:

Yeah. Thanks for the call. Just a couple of questions, one is if you could share with us the revenue model for AdRBT, in the sense, the person who wants the ad to play, he will be paying the revenues to the operator and the subscriber, he would get some sort of revenue back or he will get some freebies. Why would he let ads form part of his ringtones, just if you could just explain us the revenue model.

Arvind Rao:

Again, the actual revenue model that we are going to go to the market is not frozen because, as I said, we are trying out different combinations.

Gaurav Malhotra:

Okay.

Arvind Rao:

The person who allows an ad to be played on his tring-tring.

Gaurav Malhotra:

Yeah.

Arvind Rao:

...is going to received some sort of gratification in return for doing that. Now the gratification is not going to be in cash but it could be in terms of either free talk time or free SMSes or some free wall papers or some free ringtones from the operator. Okay?

Gaurav Malhotra:

Okay.

Arvind Rao:

That's one. On the other hand, you're going to have advertisers who are paying money based on the ads that are played. Because ads are going to have different rates based on

the level of profiling, based on the number of exposures that they actually get played out. So in the middle, the revenues from the advertiser are going to be split between the sales agent or the people who are going to actually do the ad selling between onMobile, between the telecom operators as well. It's a typical ecosystem that exists in any of our products. The only difference over here, is that we have advertisers as compared to, in some of the other eco systems, we have content owners.

Gaurav Malhotra:

Okay. Just one more questions. It's on your EBITDA margins. See if I ship out the other income from the revenue and the EBITDA margin this time, 27% versus 40% for the full year if I wait. So you are saying that this 27% would have been 34% if I were to exclude that Telisma acquisition as well as the Euro loss for Voxmobili. That still leaves 6% EBITDA margin compression that is just the function of the lumpiness in your revenues or is there anything more to it?

Arvind Rao:

It's a combination of a couple of things. One is you're right in that, there is lumpiness on both sides. Okay. There is lumpiness in terms of revenues, in terms of when large products get launched in customers, AdRBT being a classic example or when very large new customers come on screen.

Gaurav Malhotra:

Okay.

Arvind Rao:

On the other hand, the other big thing that is not accounted for is there's also lumpiness in term of expenses and costs. Okay, for example, we like I said in some of our earlier calls, we have a significant amount of R&D and investment in future products and future customer launches. For example, if I look at AdRBT as a classic example, you know we are launching it right now, it's not even started generating revenues. But the team that has been working on this, has been working on this for last year to year and half.

Gaurav Malhotra:

Okay.

Arvind Rao:

So we have absorbed all those costs without any revenue matching to it, whereas the revenue is going to start now.

Gaurav Malhotra:

So basically you are saying that guidance of revenue growth and PAT margins you are maintaining that.

Arvind Rao:

Yeah. We have maintaining it on a full year basis.

Gaurav Malhotra:

Yeah. On a full year basis.

Arvind Rao:

The thing I want everyone to understand is, we are really in a stage where the industry is in hyper growth. I mean think about where the internet was in year 1999 or '98. At that time, the companies that invested in product innovation, in marketing, and achieved a lot of traction, they increased the probability in the long run, in the end game, they would actually be the consolidators and own their space. So quite frankly, I mean, while we are giving out guidance and we are managing against that, in the odd quarter here and there, we will do what's right for running the business in the longer term. We will not shy away from making investments either to open up a completely new market whether it's Africa or Latin America or whether it's to launch a very, very large product whether its AdRBT or mobile marketing.

Gaurav Malhotra:

Okay. Just if you can give us the breakup between the impact of Telisma and Forex loss on account of Voxmobili if that is possible?

Arvind Rao:

No. We don't want to give the detailed breakdown of that. That's what we had done last quarter as well.

Gaurav Malhotra:

Okay.

Arvind Rao:

On a total basis that's the impact.

Gaurav Malhotra:

But the total impact is coming on to EBITDA not below EBITDA?

Arvind Rao:

No. It's on the EBITDA.

Gaurav Malhotra:

Okay. All right. Thank you.

Operator:

Thank you, Mr. Gaurav. Next in line, we have Zaharah Sheriff from ASK Management. Please go ahead.

Zaharah Sheriff:

Thank you. Hi. I have a couple of questions on the AdRBT but I know these are early days but nonetheless, if you can help me with, what you can. Couple of things will in terms of... hello? Hello.

Arvind Rao:

Sorry. I think we got cut-off. Sorry. Could you repeat it?

Zaharah Sheriff:

I have couple of questions on AdRBT and I know these are early days but, whatever you can tell me. In terms of your tie-up with GroupM, GroupM essentially is a media buying agency, right. So, could you explain that if we have to sort of compare with the media company so to speak, you and the Telco together are essentially the broadcaster? And therefore, who would determine the ad rates. Because GroupM would be acting on behalf of their clients and trying to get the lowest rates, right. So at some point of time if it is going to become 25% potentially, in terms of size of the Indian ad market. How is that pricing bit, going to be sort of just initial thoughts on that?

Arvind Rao:

Yeah. Actually I don't know your background but I must say your level of knowledge and your perception in that is very good.

Zaharah Sheriff:

Thank you.

Arvind Rao:

We want to play the role of being what is called as the inventory manager, right.

Zaharah Sheriff:

Okay.

Arvind Rao:

Because the AdRBT platform is ours, we actually create the inventory, we optimize the inventory and we manage the revenue from the inventory to the maximum possible we can. And we are in the best position to do it, not the telecom operator, nor a GroupM.

Zaharah Sheriff:

Right.

Arvind Rao:

And the reason is very simple, because we are actually playing the ad. So we know who is the calling party, who is listening to the ad,

Zaharah Sheriff:

Right.

Arvind Rao:

And for that matter, in our AdRBT technology we have built-in a response mechanism. So if you, lets say, you are listening to an ad and you really like what you are hearing about the specific new product, you can actually press # or * and you will get a M-coupon or a SMS sent to you with additional information on the product.

Zaharah Sheriff:

Okay.

Arvind Rao:

Okay. Now when we can do all this stuff, we can charge dynamically much higher rate per ad to the advertiser.

Zaharah Sheriff:

Right.

Arvind Rao:

If you look at what all the large internet companies are doing in terms of Google, Yahoo, all these AOL, MSN. They first had click through then they had all the way through to completion. Right?

Zaharah Sheriff:

Right.

Arvind Rao:

We are doing the same model on mobile and since we are the people who are interjecting the technology to do it, the maximization of the rate and the revenues will largely be done by us.

Zaharah Sheriff:

Okay. So there would probably be like a base rate and then an algorithm that'll sort of determine all the, I mean broadly to understand whatever is the, based on the response from the customer and all of that?

Arvind Rao:

Yeah. The rate card would look something like this, if it was completely an un-profiled ad, which was played out to an individual let's say the rate is X.

Zaharah Sheriff:

Right.

Arvind Rao:

Right. If it's a slightly profiled customer, which means I can say that it's a male, he is calling from metro, he has used ringtones for example, maybe with charge 3X.

Zaharah Sheriff:

Okay.

Arvind Rao:

If it's a very highly profiled customer in terms of, you know, we know exactly what he has done and he has even asked for an Mcoupon, we may even charge 10X.

Zaharah Sheriff:

Okay.

Arvind Rao:

And we will be able to justify the rates based on the click throughs.

Zaharah Sheriff:

Okay. Fair enough. And if it does get as big, would it at some point of time, the subscriber want a bigger share of it. I don't know, I mean I don't know how many people would actually think like that, but you know just any thoughts on them?

Arvind Rao:

I don't think the subscriber would want a cut of it, you know, because that model is one which, you know, again if I draw analogy from the internet that's a model that's not really been successful in that people being paid to see ads while browsing the net and so that's not really worked well.

Zaharah Sheriff:

Okay.

Arvind Rao:

I don't think that's going to work on the mobile, so we are not really banking on that model for the revenue stream.

Zaharah Sheriff:

Okay.

Arvind Rao:

So it's really going to be a profiled ad, which is an ideal match making between the advertiser and the consumer, it's a win-win for both.

Zaharah Sheriff:

Okay. Just two more questions on that itself, the tie up with GroupM is an initial one or you've got, it's not exclusive. Right, I mean at some point of time when it starts working you will have a whole bunch of other agencies involved?

Arvind Rao:

I can't get into that right now.

Zaharah Sheriff:

Okay. And just one more thing, so you obviously the, you know, the profiling that you talked about you've got different levels of ad rates and eventually, you know, your consumer market will want access to that data base, again in some ways, you know, like you have readership data or you know television viewership rating. So then would that independently of this service also be, you know, a way for you to monetize your data base. I mean, you know, just not individually but selling that data in terms of profiles and stuff?

Arvind Rao:

So for at least, our thinking has been, you know that, we have that even today forget AdRBT. We are sitting on piles and piles of huge amount of extremely rich information on consumers.

Zaharah Sheriff:

Right.

Arvind Rao:

Who is using what, who is downloading ringtones, who is listening to cricket scores, who is using RBT, listening to jokes, who has downloaded wallpapers. We know a lot about consumers.

Zaharah Sheriff:

Right.

Arvind Rao:

Now, are we using that to do cross selling and increase the effectiveness in our revenues, you bet we are. Are we going to sell that information as a standalone basis of revenue the answer is No. It's very strategic, it's extremely high value information, its also information that is customer confidential and owned by the operator to a large extent. So we are not going to do it.

Audio Not Clear

Kunal from BNP Paribas – Question on RBT

Kunal:

Okay.

Arvind Rao:

Here, they have only one provider, that's us.

Kunal:

Okay.

Arvind Rao:

In the case of Airtel, they have got two providers now, one and their other provider.

Kunal:

Okay. And so what will be a nationwide market share, it will be more than 50% right now?

Arvind Rao:

It will probably be more than that, but don't really manage, we don't track to that. We try our level best but on an active subscriber basis, you are probably right.

Kunal:

Okay. And in terms of CRBT take up in rural areas how you are seeing it, like, as the rural subscriber share is increasing, are you seeing the take-up of CRBT in the same proportion?

Mouli Raman:

One thing about CRBT is that it caters to a wide variety of users. So what we are seeing is that an increased penetration across the board.

Kunal:

Okay. And my last question is on Voxmobili, how is the performance in the quarter like in terms of revenue and EPS, you had given it last quarter?

Rajesh Moorti:

If you look at the difference between the standalone and consolidated that's essentially Voxmobili.

Kunal:

Okay. Thank you.

Arvind Rao:

Yeah. It has done well.

Kunal:

Okay. Thanks.

Operator:

Thank you, Mr. Kunal.

Operator:

Next, in line we have Mr. Kuldeep from Kotak. Please go ahead, sir.

Kuldeep:

Yeah. Thanks for taking the question. My question is to Arvind, it's actually from next two years, two to three years point of view, where do we see our product mix going? Do we see the RBT still to be higher in terms of proportion?

Arvind Rao:

You have to understand one thing, RBT as a product category did not exist three or four years ago. So it's come out of nowhere and it's the huge product development, right?

Kuldeep:

Right.

Arvind Rao:

Now, going forward, as I said as the markets get more evolved and as you get higher powered handsets, we are going to be launching more-and-more data services and GPRS based services.

Kuldeep:

Okay.

Arvind Rao:

So RBT as a percentage of our revenues, we don't really know. Ideally over a three or five year horizon that percentage will drop.

Kuldeep:

Okay.

Arvind Rao:

That much I can tell you. In the near term RBT itself is growing pretty rapidly. So even though we are launching new data service products, will that be sufficient to offset the growth in RBT, we don't really know. And quite frankly, we don't care, we are happy taking the money on both sides.

Kuldeep:

Yeah. We were talking on the RBT front, could we know for this quarter how has the RBT revenue grown?

Mouli Raman:

Yeah. In some of the carriers the penetration has increased and we are seeing fairly healthy grows on RBT.

Kuldeep:

Can you just indicate in terms of percentage?

Rajesh Moorti:

Again, Kuldeep the issue is one is the increase in penetration from operators and the second one is that with the launch of RBT in Airtel South Zone, which just got completed at the end of the quarter.

Kuldeep:

Okay.

Rajesh Moorti:

There is a sizable increase in the RBT revenues.

Kuldeep:

Okay. Fair enough. On the AdRBT front, I know its little early to talk maybe but in terms of our revenue share, would it be in the same range as the RBT or would it be entirely different?

Mouli Raman:

Because the source of revenue is different, it follows the different revenue share pattern.

Kuldeep:

On the percentage terms would it be 20%, is it fair to assume it will somewhere around 20%?

Mouli Raman:

It's more than that, it's in a range of about 25 to 30%.

Kuldeep:

Okay. Thanks a lot.

Operator:

Thank you, Mr. Kuldeep.

Mouli Raman:

So thank you, very much. And really a pleasure having this call and looking forward to the call in the next quarter.

Operator:

Thank you, sir.

Mouli Raman:

Thank you, very much.

Operator:

That does conclude the conference for today. Thank you for participating. You may all disconnect now.

END