

OnMobile Global Limited

Investor Conference Call – Q1

3 Aug 2009

Operator:

Thank you for standing by and welcome to the OnMobile first quarter earnings conference call presented by Mr. Arvind Rao. At this time, all the participants are in the 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 *1 on your telephone. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Arvind Rao, over to you sir.

Arvind Rao:

Thank you very much. Good morning everyone. This is Arvind Rao. I am dialing into this call from Bombay. Along with me I have Sanjay Uppal who is our president and COO, and Sandhya Gupta who heads our M&A and Investments. We are here in the Bombay office and joining us also from Bangalore is Mouli Raman, CTO and Co-Founder, and Rajesh Moorti who is our CFO. The way we will do this call is, I will just give some background first on our results and what is overall going on. Then Sanjay will talk a little bit about the material developments in the Company from a Customer standpoint. Mouli Raman will do the same from products and organization, and then Rajesh Moorti, will go into the numbers and following that we will do our Q&A.

So just as a backdrop before we get into the quarter and the results, I wanted to make a few observations. The first one is that as you all know, the first quarter has historically been the slowest and the weakest, traditionally in our business. So, that is something that one needs to consider in reviewing the numbers. The second thing is in this quarter and also in the previous quarter, we have been working on some very large customer deployments for the future, in particular Vodafone and Telefonica and in addition there was one very large European operator that gave us a very large order for which we had to do some pre-investments through our French unit which again dragged down the earnings with revenues to follow in the following six months. The third observation that I wanted to make regarding India which is our core bread and better and represents about 65 to 70% of our revenues today, there were two material impacts from India. One is there were one or two operators who had a slowdown and a little bit of a restructuring so that has impacted our quarterly results. We are working with both of them. In one case, it was a deferral of revenue because the network rollout was slowed down. In the other case, it was an internal restructuring which has affected their revenues on VAS and the revenues that we have been doing with them and we are working with them to see how to turn that situation around, but that has affected our quarterly earnings. And the second development of India was the TRAI directive, which as you all know, has resulted to a slowdown in the growth of VAS as operators implement second confirmation for selection of downloads, etc. Now, it is affecting revenues of the whole industry but all of us are working together in terms of implementing measures. Now, whether it takes one quarter or whether it takes two quarters, I am fairly confident that the growth will continue on the previous pace as we walk our way through this. Finally, the last point I wanted to make is that you all might have noticed that we have issued our talking points

for this call in a slightly different format and again this is in response to many of the analysts who have asked us historically that, if you say that you are investing so heavily for the future, why don't you break out your recurring revenues and your recurring P&L versus your investment so we can get some sense as to the magnitude of the investments, which as you know are pretty major and will be major as we go internationally. So, what we have done is we have actually changed the P&L format and we have actually broken out the business into core business and investments, and we have defined investments as new customers and new products which are all the way from start of the project or start of the product development until it goes live and one year thereafter. In most cases, we break even within six to nine months of launching a new customer or launching a new product. So, in other words this matches closely with getting to break even on the new initiatives. Now, again as many of you may notice, the investments are fairly major and they will continue to be major in particular as we deploy Telefonica and Vodafone, because these involve very large investments in far off places, you know, whether it is South Africa, whether it is Brazil, whether it is Mexico, whether it is Europe. But again, all these are seeds which are being planted with a long term contract of five to seven years, and as you know on a revenue share basis, the revenues are naturally end loaded, but again these are the seeds for long term customer relationships which will help us get to a position of being the number one global company. So, with that as a background I am going to turn it over to Sanjay and ask him to just walk you through the material developments on the customer side.

Sanjay Uppal:

Thank you Arvind and hello everybody on the call. So, I just wanted to add a little bit more color to what Arvind was saying on the developments on the customers' side. Firstly, if you look at our strategy of planting the seeds to help diversify the base that we have here in India, we have shown some very good success in this last quarter. We have deployed M-Radio in the SAARC region and that has crossed a million subscribers mark, and we have also signed on one major operator in the SAARC region for M-Radio. This continues with our strategy of planting the seeds and now the APAC region has begun to bear the fruits for the seed that we had planted a few quarters ago. Now next, when we look at what is going on with the implementation of the Vodafone global agreement, we have launched our first operator in Europe following that global agreement and this launch was successful, it was on time, and it was on budget. Now following that I hope to present in the next call how we are continuing to execute on the Vodafone agreement and deploy one additional customer. For this last quarter, we deployed the first customer in Europe following that agreement. Now, when we look at planting the seeds for the future, which is what Arvind also mentioned, we have signed on the business agreement with Telefonica, which is the world's third largest operator, and this is for the entire continent of Latin America and there we have a whole suite of services, many of them being exclusive. For example, ADRBT, RBT, Reverse RBT, M-Radio and its variants, and including services that we expect to be quite successful in that region. For example soccer portal, full voice search, as well as a religion portal. Now the customer base in that region is 130 million customers, i.e. end subscribers across 13 countries, and we expect that the seeds that we are planting for Latin America again will

bear fruit following the 6 to 12 month investment cycle that Arvind pointed. That is, that once we make the investment in a particular quarter, 6 to 12 months from then, we will be able to bear the fruit for those investments. Now, looking at a couple of other operators, we have launched both voice portal as well as RBT services with a new GSM operator in India. So again, looking at planting the seeds so that we can bear the fruit a few quarters down the road. Now, Arvind also mentioned that there was a large contract that we signed with a leading European operator and we had to incur some additional expenses ahead of getting revenue. We are very pleased that from our international perspective, not just RBT, voice portal types of service that we have grown and been very successful in India, but we are also reaching into the developments from our European subsidiary and in this particular case in terms of networking through a network address book, we have been able to sign on and Mouli will provide more details on it, but we have been able to sign on with one of the largest operators to be able to deploy these services and we expect that from a product standpoint, we will be able to take that and make it more widely applicable across our entire customer base.

Now, to take a pause and that couple of things material developments that happened which did affect our top line for this last quarter and Arvind touched upon this as well that is one of our operators is going through an internal restructuring which has impacted revenues for this quarter and in another operator because of deployment reasons in the infrastructure delays, the deployment of that infrastructure which has affected our revenues as well. That is just a deferral of revenue and that revenue got pushed out from this quarter into the next one or two quarters.

Last point that I wanted to mention before I turn it over to Mouli to talk about the product side is this TRAI directive and what we have mentioned here is that because of this directive coming in, some of the operators had an impact of their top lines revenues of up to 10%.

The interpretation of the directive varied from operator to operator and that is why there is a variation in what the impact was both on us as well as on the operators themselves, but we are working quite closely with the operators as well as with TRAI and we are quite confident that when a new directive does come out that the interpretations will be uniform across all the operators and it is going to reduce the impact on all of us in the VAS industry. So with that, I wanted to conclude on the material new developments from a customer perspective and I will now turn it over to Mouli Raman to comment on the product side.

Mouli Raman:

Thanks Sanjay. Good morning everyone. On the product side, we have had some good developments over the last quarter, the first one being that two large handset manufacturers have selected our phone backup solution which is a client-based solution for backing up data on the handset on the service side that they have selected our phone back-up solutions to be embedded with all the Android phones in the US market. This is a great win for us. And the second one is social address book which is the advanced version of phone backup. As you know, a couple of quarters back, this was rated as one

of the top applications in Google Android applications space. And today we have seen a significant uptake from the consumers standpoint, about 250 k downloads is what we have seen here. Social address book has also been launched in all the subsidiaries of a leading operator in Europe. The third one Mobile Radio, we are seeing a good uptake for Mobile Radio in many of the developing markets and recently we crossed a million subscribers in one of the countries in the SAARC region and this has happened within six months. And, as we know Nokia is focusing a lot on Nokia Life Tools which are the services that they are providing to the rural subscribers and we have partnered with them to power it and we expect good growth over the next about two to three years with this initiative. Moving on to the organizational side, we have opened an office in Romania, which is our entry point into Eastern European markets and as Sanjay said before, we have launched RBT in Eastern Europe and we are seeing some good results there.

The next one is awards and recognition. For the third year in a row, Voice and Data Magazine which is the top telecom magazine in India us as rated as the top VAS company. And the next one is last year we had run an AIDS awareness campaign for BBC - Bill Gates Foundation and that has won a Cannes bronze recently. So, with that I would like to hand it over to Rajesh Moorti.

Rajesh Moorti:

Thanks Mouli. Good morning everyone. I will just quickly run you through the financials of the quarter before we open up for the Q&A. I just want to reiterate what Arvind said earlier, is about providing clarity to the investing community to get a better understanding of our business.

So, from this quarter onwards in our earnings release, we are specifically highlighting a few things. One is what the actual number for the quarter is, what is the split between our core business, and what is the amount of money that we are investing, and also not only giving that information for the quarter but also the previous four quarters, and as we had mentioned on the previous earnings call, is that our business cannot be really looked at on a quarter to quarter basis and to get a better understanding we are giving the four quarters rolling information vis-à-vis the same information for the previous four quarters period so that you have a better understanding of how on a 12-monthly basis, the business has grown. In the first quarter of 2009-10, our net revenue was Rs. 1072 million with the EBITDA of Rs. 244 million and an operating profit of roughly Rs. 111 million. As you can see from the table that we circulated, the core business operating profit is very healthy at around 19% and typically the first quarter is the smallest quarter for us, and the total business operating profit is roughly around 10%. Two things here, one we have been cautiously focusing on over the last few quarters is how do we control our discretionary spend so that we can control the costs in the core business and use the savings to invest in the new business opportunities, and that has been a continued focus area for us and we have made some good progress in this quarter, and the second one is on how do we generate operating cash flow so that we can capitalize on the opportunities that are available in the rest of the world. And again, by focusing on collections, by entering into financial leases for our equipment so that we can match our payouts for equipment to the collection that we have over the life of the contract, we have been able

to generate some healthy cash flow in this quarter. And last but not the least, just to talk about the investment opportunities, I want everyone to just look back on what happened in our experiment with APAC. Two year ago we had this opportunity with Indonesia and then in Malaysia, Singapore, Pakistan, Bangladesh, and those seeds that we planted two years ago have started giving good results and it is a matter of time before those businesses would be as profitable as the operators in India. So, with that I would now open up this session for Q&A.

Operator:

Certainly sir. At this time, participants who wish to ask any question, kindly press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request please press the 'hash' or the 'pound' key. First in line, we have a question from Mr. Sameer Naringrekar from BNP Paribas. Please go ahead sir.

Sameer Naringrekar:

Good morning. Just a couple of questions. In terms of the AdRBT product, if you could give us some details into what is the progress of that product, is it still on track? And in terms of the revenue potential of the phone backup, have you been able to get any sort of revenue share agreements or is it still going ahead on the licensing model? Thank you.

Arvind Rao:

Okay. So, I will take the latter question first because I think that is an easier one to answer. When we bought Voxmobili, the French company which did phone backup, they were on a licensing model. Now, when we brought them to India and the APAC region in particular, which are very high growth markets, we have done all the deals on a revenue share basis because we believe that over a period of five years, the NPV of our revenue share deal is almost 8 to 10 x, that of an upfront licensing deal, that is significantly different. However, there is an upfront cost that you pay with it in terms of not booking the revenues upfront. But the good news is that it is a much easier sell and it reduces the sale cycle also in selling to an operator, because typically they do not go through RFPs if it is on a revenue share basis. So, all the deals that we have done for phone back whether it is with Airtel, Vodafone India, Idea, or any of the operators in Malaysia, Indonesia, which we have sold phone backup into, they are all on a revenue share basis and all those seeds are beginning to pick up revenue, starting now. So, that is one very positive sign and we believe that about a year or two years from now, all those trees that we have planted will be throwing off a lot of revenue. The other point I wanted to make is the beauty about phone back revenues on a revenue share basis is that the contribution margin is extremely high, because your hardware associated with that services is not that significant. There is no content cost associated with it and there is very little operating cost because the system really operates on a standalone basis. It does not require a team to manage the content, refresh the content, so the profit margins are extremely high on a revenue share basis. So, that is regarding the phone backup. On the AdRBT, I am happy to tell you, as we know in the past we have been tracking this large

project, we are doing it in beta with Vodafone India and I am happy to tell you that following the successful trial, the system is actually live in about 80% of the Vodafone India circles as of today, and in our initial deployment we have already signed up about a hundred thousand subscribers, that is one lakh subscribers are already live in the AdRBT product in India today. Now, given the magnitude of the product and how pervasive it is in that, you can imagine about 100 million calls a day which are playing ads. We have to be extremely cautious in rolling it out which is what Vodafone is doing. So, so far the project is entirely on track. There have been no hiccups on any front whether it is technical or commercial, and as I have said before, we are looking in the October-November-December quarter that is when we will really be opening the taps and going full hog on above the line promotions and wrapping up that product.

Sanjay Uppal:

I wanted to add one more thing to that phone backup. You know just to tie up together to what we said about the address book, you should look at phone backup as being the first step in a series of related services. So, phone backup is related to saving the data, then you have address book which is related to syncing, and then you have social address book which is related to sharing your address book with your family's address book, with your friend's address book as you give the permission. So, we are looking at this phone backup also as an entry point into providing a set of services that go beyond phone backup when we get in into the operator.

Sameer Naringrekar:

Okay, thank you. That is helpful.

Operator:

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

Srinivas Rao:

Thank you operator. I just wanted to check with you, you said that the cost related to a large roll out of services in the European market. Can you just elucidate on that? And second, I wanted to understand this impact of the phone backup being the default application in two of the handset manufacturers. How do you think that is going to play out, Android still is in the infancy. So, do you think you will ride as an Android kind of seeds in most smart phones? What is the thinking behind that?

Sanjay Uppal:

Let me take the first question about the European operator. What we are doing with these European operators as well as the ones that are, you know, the western tier I operators, is we work together with them on deploying these cutting edge services. We are in a

competitive state with other people, you know, as you can imagine that there are folks from the United States, Europe, and from all over the world who call on these tier I operators to be able to get the services that they want to roll out. When we win a competitive deal, when we come to know that we have won a competitive deal, we have to deploy almost immediately and the people who have to work with the operator to start rolling out these services. First of course to start working on them, and then to get into an alpha stage, and to get into a beta deployment and finally to roll them out. So, we have been working on this particular large European operator for a while. We got to know this quarter that this deal is actually coming through, because of that and because of the need for some very specialized resources, we have to deploy some people from our own team and we have to get some of the specialized resources from the outside to be able to go and put this kind of team in place. So, this had an impact of about 3 to 4 crore region for this quarter. Of course, there is good news to that element as well. The good news is that once we win one of these really large operators, then we can see a stream of services and of revenue that will accrue in the following quarters, again in the 6 to 9 to 12 months cycle. But that one time hit was there because we won the deal in this quarter and we had to deploy some of these extraordinary resources in the same quarter. Now, for the follow on about phone backup, let me turn it over to Mouli.

Mouli Raman:

If you look at what are the expectations for the Android phones in the US next year basically if you go by the estimates, it's about anywhere between 4 to 6 million handsets. And two handset manufacturers we are talking about have a very good share of it basically. So, in so many millions of handsets this will be embedded as a default phone backup service.

Srinivas Rao:

Just wanted to clarify. I am assuming the subscribers will need to subscribe to the service with their respective operators, right?

Mouli Raman:

Yes.

Arvind Rao:

See Srini, one of the issues with the phone back product is that it is a client that is based on the handset. So the adoption of the service has a little bit of an entry barrier in that the client has to find its way to the handset and then the user has to activate it. So, one way of bundling the product with the handset is to solve that problem in a major manner because then you are already getting the product into the hand of the end user. So when the person gets a new phone and activates it, the client has a feature where it can self activate, initiate a call, and say hey you have got this phone backup service, would you

like to subscribe and activate it? So it makes the activation process automatic and very easy and that should result in higher number of activations.

Sanjay Uppal:

And you know it's important to come-in in the beginning when a new platform is being rolled out. Yes, Android is definitely in its infancy, but if you get in as kind of a default solution, default because most people are downloading our phone backup solution for Android, then you have a much larger chance of being there, you know, once the rest of the phones from Android are deployed. And suffice it to say that, you know, we are talking about Android right now but depending on the region that we are deploying in and there are different models to get our software embedded on their handset depending on whether the operator has enough control, whether it is going through a download site like Android is. Depending on what that model is to get the software we are working on all of those and the Android one, we thought, was very significant, so we mentioned it here.

Srinivas Rao:

Fair enough. Thank you so much.

Operator:

Thank you sir. Next question comes from Mr. Gaurav Malhotra from Citi Group. Please go ahead, sir.

Gaurav Malhotra:

Hi, to everyone. Just two, three questions. First, if you could just repeat what was the one time hit on account of the European operator, I missed that. The other bit is that, what does the other opex relate to, if you could just break it up for us. My third question is that you mentioned that this quarter there has been a deferral of revenues in the domestic market, but I see that your content fee has continued to go up. So, what is the reason for this? And my last question is, that the tax rate is very high, the effective tax rate. Is it because of the losses and the overseas subsidiaries that your taxes look artificially high? That is all.

Arvind Rao:

I will take two of your questions and then I will pass it on to Rajesh to handle the other two. Your first question was the European operator, what we have said is that the initial investment that we had to make in this quarter which is in manpower, which goes to deploy and integrate and customize the solution. The cost that we have taken is roughly 3 to 4 crores. So you can think of that as an investment for the future. It shows up in our investment column, but that's the result of that action, now clearly this is a long term contract, you know obviously we do believe that the revenues are not going to follow, are

going to be 5 to 10 x, that is the bare minimum. But that is the quantum of the investment that we have absorbed in this quarter. Your second question was regarding the Indian operator. You know over there it is a network roll out. Usually what happens is, as you know many Indian operators, both Greenfield as well as existing customers are rolling out new GSM networks. Now, the way it works is when we sign up with, let's say one of them, to deploy our ring back tone and voice portal product, we estimate at what point the network will go live and revenues will start kicking in for us. So, we start deploying the product any way, because you know if the lead times involved are very large, so we cannot turn on the services at the last minute, so we go ahead and start deploying. Now for various reasons, the operators if there is a delay in actually lighting up the network, or going live, that obviously has a deferral effect on our revenues. So that's all it is, it is basically a deferral by one or two quarters, but nothing other than that. The investment that we have made still holds good. There is no loss, there is no detrimental impact on that investment, its rock solid. It is just a question that the revenues will start one or two quarters later, that's all.

On your other two questions regarding the breakdown of Other opex as well as the tax rate and the content fee, I will ask Rajesh, can you just comment on these?

Rajesh Moorti:

Yes, sure. Gaurav the other opex actually is made up of anything other than the manpower cost; so it includes things like rent, it includes all the facilities cost, the travel, the communication, the marketing costs, and so on and so forth. So, this is the other sales and general administration expenses. As regards the effective tax rate you are right. We have two legal entities, one is the Indian legal entity and the other is the European legal entity which is the bulk of our business. The Indian legal entity has profit, so you have to make a provision for taxes there, but given that the French legal entity has losses in this quarter and you cannot offset the loss of one legal entity with another. But as the year unfolds, we will be able to utilize the losses of that entity and the effective tax rate would come down as we progress through the year. The last one is the content cost, content cost you certainly cannot look at the first quarter of last year to first quarter of this year. You need to really compare the last quarter of last year. So, when you compare that we have been able to hold the content cost. The content cost as a percentage of revenue may look higher, but in absolute terms we have been able to hold the content cost where it was.

Gaurav Malhotra:

My question was that because there has been a deferral of revenues, wouldn't the content cost as a percentage of revenue should not have moved up or it would have any way moved up whether the revenues get deferred or not?

Rajesh Moorti:

I will just take a step back and again go back to our discussions in the earlier calls, that we do not necessarily procure content for all the telecom operators. Each contract is different. So, in cases where we have been procuring content, the content cost has

remained the same, and change in the revenue mix from one customer to other customer does not necessarily change our content cost.

Arvind Rao:

Just to add to what Rajesh said, Gaurav, the way the content industry works is in many cases they have this concept of a minimum guarantee, right. So, to some extent we pay the minimum guarantees and make sure that we recover it through the revenues. Now, if the revenues are deferred, we still have to pay that minimum guarantee. So, that sometimes does affect us on a quarter by quarter basis. Over the long run we ensure that we are managing overall content costs as a percentage of revenue, but in the short run on a quarter on quarter basis, there could be some ups and downs.

Gaurav Malhotra:

Okay. Just lastly on this effective tax rate, I am just coming back to it. So you are seeing that general trend in the last year was around 25 to 27%, so it would start to normalize again to those levels during the year?

Rajesh Moorti:

It may not entirely normalize to that level. The reason for that is there were two benefits that we got last year, one was the benefit of carry forward losses in the subsidiaries. The second was that we were investing a lot of money last year in mutual funds where the effective tax rate on the dividends is lower. But this year predominantly bulk of our surplus funds are invested in fixed deposits which carry a higher tax rate. So, yes the effective tax rate would come down, but may not necessarily be at the same rate as last year.

Gaurav Malhotra:

Okay. Thank you so much.

Operator:

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

Sandeep Shah:

Yes, sir. Just in terms of the European player which we had said we have signed, I believe this is over and above the Vodafone deal?

Arvind Rao:

Yes, that is correct. We will not do double counting. Normally the way it works is, only for very very large global deals and today we have only two of them that are booked, one is Vodafone and one is Telefonica. So, in general, when we do reporting and when we talk to you and all the analyst community, anything that comes under these two families with the exception of Vodafone India because Vodafone is the grandfathered historical customer contract. All the other new stuff that we are doing, whether it is in Romania, whether it is in South Africa, Egypt, New Zealand, in Latin America, all the way from Mexico to Chile, they will be broken out by those two families. So, whenever we talk about any other customer it is outside these two major contracts.

Sandeep Shah:

Okay. And here right now the product which has been sold is only phone back or it's a bouquet of services?

Arvind Rao:

For the European operator?

Sandeep Shah:

Yes.

Sanjay Uppal:

It will be address book, so it is beyond the phone backup.

Sandeep Shah:

So, it is beyond the phone backup all other services are also being included.

Arvind Rao:

And just on what Sanjay and Mouli said, again I want to just express this to all of you because you know the whole beauty about the phone backup, network address book, social address book, leading all the way to mobile social networking, you know the address book is the core product which telecom operators can use to launch their own version of mobile social networking. And I cannot stress how strategic and valuable this product is for our telephone operator, because we are all grappling with what is happening on the internet in terms of face book, my space, all that traffic, and how do we participate, we meaning the telecom operators, participate in that space given that they have the last mile connectivity and one of the core things that they are missing is this social address book which is why we are so excited about this product and we are very busy in marketing it and launching it in as many operators as we can.

Sandeep Shah:

And just here the product which has been sold beyond phone back is also on a licensed basis or it is on the revenue share.

Arvind Rao:

The address book that has been sold is on a licensing basis for this European operator. Here again I want to be very clear about one thing. Our preferred model if we had a choice is to do it on a revenue share. Wherever we go we try for a revenue share basis. However, most tier 1 operators, they are used to a different model in terms of licensing. So, while we do pitch the revenue share and we try to evangelize it as much as we can and I am happy to say that some of our deals with very large tier 1 operators, including the two large deals, Vodafone global and Telefonica are both on a revenue share. One of the reasons why both these two large agreement took us almost 9 to 12 months to consummate, is we had to meet with everyone, all the way from the top, the CEO, the CMO, the CFO, the individual heads of Countries to convince them that this is the right model going forward and why it is a significant departure from the way they use to do business. So, that was not easy but I am very happy that both those two huge deals are all of a revenue share very long term basis.

Sandeep Shah:

Okay. And just regarding this Android mobile phones, here our revenue shows only the license fees from a handset manufacturer or there is additional revenue whenever the subscriber also activates the service?

Arvind Rao:

See the phone backup, it depends on two cases, right? It depends on the end user price that an operator chooses to follow. In some cases they bundle it with their service, where they think it is strategic, and it reminds you of the voice mail where operators use to charge for it and then later on they started bundling and giving it for free. So, if the end user price and the strategy of the telecom operators to give it for free, then obviously we will not do a revenue share with them. So, in that case we do a licensing. However, we are seeing in Asia Pacific where the operators are more geared towards our subscription model and ongoing recurring revenue, many of them have actually told us that they are doing phone back up on a subscription basis. So, for example, if I look at Airtel or many of the Indian operators, they are planning to launch phone backup for roughly about 30 or 35 rupees per month, and we get roughly about a 25 to 30% revenue share out of that. So, once that service gets kicking in large numbers in the Indian market, for example, it is going to be a very profitable and very strong revenue stream for us.

Sandeep Shah:

Okay. And just in terms of Telefonica, can you give us more details about the 50 million investment which we have planned in terms of a breakup into opex, capex, and how this would pan out over next three to four quarters?

Arvind Rao:

The honest answer for you, I will tell you is that this is our estimate. First of all I can tell you that on a quarterly basis, we are still modeling that out and the reason I say this is because we have done the deal at a global level with head quarters. Somewhere in the next two months, our team is actually doing a road trip with each individual country in Latin America to meet their CMOs, CEOs, and actually plan out the deployment and at that point we will be able to phase the investment on a quarterly basis. So, until that time it is a little difficult to do, because you know, for example, we do not know whether it want to go live first with Brazil or with Mexico or with Ecuador, or Chile. That whole deployment schedule is still being worked out and that has implications for the hardware, the number of people we have, where they are going to be based and the content associated with getting those services live. So, on that front we will be happy to give you some guidance but that will have to wait until the next quarter because we ourselves don't have the breakdown at this point. Also, in terms of the break down of the number itself, the number breaks into a variety of things. First of all, for some of the products, and again remember that this is covering almost 20 to 25 services of OnMobile. So, it is a very very wide and large deal. From a product standpoint actually it is far wider than even the Vodafone deal that we have cut. So, in terms of the breakdown, let me cover what all it covers, right. It covers first of all, all the hardware that we are going to put in. It covers all the software both third party as well as OnMobile software. Now in some cases the software is something that is already developed on our core RBT platform, and it is already done. But in addition to that, there are several services, whether it is mobile bazaar or whether it is voice search, or whether it is soccer portal or the religion portal, which are entirely new software developments that we will have to incur. So, we have to factor in the development cost for all that effort as well. And there is the customization and integration, because we have to have a team that goes inside each Telefonica operator, fix with their technical team, and integrate and put our product into the network. So, again I come back this vision, our concept that we have of planting seeds because the way I look at it, it is literally like replacing an organ. You are really going into each Telefonica country and it's like a human patient, you are replacing an organ in each patient in Telefonica. So that gives you a tremendous entry barrier. Once you have done it, the initial investment, you are set for five to six years.

Sandeep Shah:

Okay. Just last thing is Rajesh, you said that the content cost or the direct cost, yes in the standalone business it has remained more or less flattish on a sequential basis, but in the cons, this has almost increased by 20% sequentially from 25 crores to 30 crores.

Rajesh Moorti:

There is no content cost in our consolidated businesses. It's mainly in the standalone business. The increase there is what Sanjay and Arvind talked about earlier. This is the direct cost related to the new order that we have received from one of the large European telecom operators, so that is part of the COGS.

Sandeep Shah:

Okay. Thanks.

Operator:

Thank you sir. Next in line we have a question from Mr. Naveen Kulkarni from MF Global. Please go ahead.

Naveen Kulkarni:

Thanks for taking my question. I would like to understand this Bharti has outsourced lot of its value added services to Comviva. And we have also seen that their VAS revenues were affected this quarter. So, how do you think this will upset OnMobile?

Arvind Rao:

Sorry, I didn't get the second part of your statement. Could you repeat that please?

Naveen Kulkarni:

I would like to understand how the outsourcing deal with Comviva will affect OnMobile going ahead?

Arvind Rao:

Now, a couple of things. First of all, yes Conviva is you know a Bharti group company and clearly that's a transaction between the two parties which they handle on a third party basis. Of that service we understand is the outsourced management of the VAS nodes, it is a service and it does not involve really a lot of IP. The key point I want to make is, the difference between that deal and what OnMobile does. For example, if somebody came and asked us, would we go and manage somebody's network on a pure services basis? The answer is no. We are not a services company. Any request that comes to us like that, we would forward it most likely to Infosys or Wipro or any of these people because they are on a different basis. Our competitive basis is product IP. We will not enter into any business arrangement with a customer that does not involve strong IP that is developed within OnMobile, because that is the core. Because we are not in services business, we are not here to operate at a cost plus basis or to say that we are going to bill people out at X and pay them Y and do a labor arbitrage or profit on the delta; that is not

our business model. Our business model is to develop incredibly powerful product IP and monetize that through value added services. In other words, to answer your question very directly, does that affect anything that we are doing with Airtel today or that we will do in the future? The answer is absolutely not.

We will compete with Conviva on cases where their product IP competes with ours. On that basis we will compete, but on cases like this which is pure services we will not compete with them.

Naveen Kulkarni:

Okay. And secondly, I want to understand, since you would be deploying your services with two large operators, that is Telefonica and also with Vodafone, what is the kind of manpower requirement that you would have, you would be doing some kind of hiring during this year, can you just quantify in terms of employees and things like that.

Arvind Rao:

I will let Sanjay comment on that because his biggest challenge is to get these deployments done with minimal hiring which may sound like a contradiction in terms but the issue is like this, at some stage, we will have in Latin America may be about 100 to 200 people. Now, the challenge over here is two things, one is the quantum of people and the second thing is the mix between the locals that we hire overseas and as well as people that we ship out from India. You know the cost structure will be based on the mix that we do and that will be on a case by case basis.

Sanjay Uppal:

See overall, if we add any region, we expect that in the six, nine to twelve months cycle, that it will be as profitable as previous. So, the head count that we will be adding which will be a split between resources that we will be sending from a swat team approach from India to hiring of the local people, these resources will still come under the envelope and produce in our standpoint the same level of profitability. So, I am not concerned about the amount of the hiring, it is just that the ramp up plan and the expertise that we require will be both from the local side as well as the team in Bangalore. So, as Arvind was pointing out, once all these services are rolled out and you can look at 12, 18 months of a cycle, then the size of the overall team would be of that magnitude. Now, consider that there are 13 countries involved. So, in these 13 countries, there will be some local resources, there will be some hub resources. In the sense that some of these countries like you can think of Latin America is dividing into North, South, Central America, there will be some hub resources as well which will be sub-planted with a swat team approach from Bangalore.

Arvind Rao:

You know, one thing in fact, it is a good thing you brought that out, because in our board meeting, we actually spent some time discussing the execution challenges associated with

these two large contracts. Because when we look at a Gantt chart, we were quite shocked. We were working on almost 53 simultaneous deployments worldwide. That is the combination of new products in old customers or old products in new customers or vice versa and this was just shocking to us as to what was the scale at which we are taking on new business.

Naveen Kulkarni:

Okay. Thanks, that answers my questions.

Operator:

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

Amit Ahire:

Hello. I have two questions. First on the macro level, how do you see the growth of VAS services in domestic market panning out. And second, historically we have been given outlooks or guidance how the revenue or the margins would flow in. But last quarter probably because of the bad scenario, the macroeconomic indicators we refrained from giving any guidance. So, is it possible for you to share, given the lumpiness of the business, what will be the guidance for this year and next year, and what will be the margins that one expects?

Arvind Rao:

You know, as we have said before, I want to maintain this thing. We are not going to give out guidance and the reason is very simple because (a) if you step back really and look at value added services both in India and overseas, the expression I want to use at least for OnMobile is unprecedented customer demand. Those are exactly the words the way I feel it, the way all of us feel it. It is amazing that initially we use to really hustle and work very hard to get a large overseas customer to sign up with us. Today, we are finding that the momentum is becoming easier and easier as our track record gets richer and longer, and if we have to go out and invest very heavily to capture all those, what I call is real estate slots, we are going to do it because you know the market is not going to wait for us. For example, let us take the Telefonica deal. The Telefonica deal is a five year contract which after you factor in the time to deploy and the renewal contract, it will most likely end up being forever. Now, that is a very very large contract. We did not hustle and go and get that slot and actually take it and say we are willing to make the investment and we said we cannot invest this year, we will go next year, that deal is not going to be there next year because the operator is not going to wait for us. So, what we are seeing around the world is that there is an explosive demand for VAS. I mean you know the top line, the top line of you know Telco's ARPU is falling, they are looking for alternative services, and that is a cliché, that has been around for ten years.

The fact is that the pressure on Telco's has mounted to a point where we are seeing the receptiveness to our value proposition when we go and pitch them, is actually very very receptive. And for that we are going to make the investment that is required to spread our wings. We are not going to feel shy about it. One of the advantages of being a listed company relative to unlisted companies, that we have capital strength, we have financial resources, it would be a crime not to go out and sign up all these contracts. So, on the one hand, what we are saying is on a secular basis, we still continue to see growth in the range of whatever you want to call it, 30%, 40%, 50 % year-on-year. Okay and we are going to continue to chase that growth. Now, as you are chasing that growth, depending on the level of investment it will have an impact on margins. And I have said this before, so I will repeat it again because nothing has changed. If people wanted us to deliver margins, we could take our foot off the accelerator today and deliver 40% margins, not a big deal; we can do it in one quarter. Is that the right thing for the company to do from a competitive standpoint and from a business standpoint? Absolutely not. I mean this is a growth story. If you look at any of the growth stories that have made it really successful, whether it is e-Bay or Google, or Amazon, or closer to home even players like Infosys and Airtel, they required many many years of investment and plowing back any free cash flow, rather than just have it being very profitable and investing in the business because the ROE on that is so strong. So, again, my point is like this, we are managing this business while we are trying to maintain the margins in bands that are acceptable and what the street expects to some extent, you know we will not shy in terms of deviating slightly from those margins when it is for a good purpose we can defend it very clearly and it wins us very large customer contracts on a long time basis.

Amit Ahire:

Okay, sir. Thank you.

Operator:

Thank you sir. Next in line we have a question from Mr. Gaurav Jaitley from Reliance Equities. Please go ahead, sir.

Gaurav Jaitley:

Thank you for taking the question. Good morning. Just a couple of questions, Arvind. Obviously, you had a couple of extraordinary things happen this quarter in terms of the TRAI ruling and the restructuring, but if you please step back and give the sense of what you are seeing in the domestic market in terms of the overall industry trends, are we seeing usage being affected and how that growth has trended, even if you look back six months to now, because obviously lot of the operators are getting incremental growths in the rural areas and ARPUs are declining. So if you could give us a sense of the domestic market what you see there.

And then secondly, just more specifically on the TRAI ruling, as per my understanding the ruling was to be in effect by June 10th or thereabouts and just wanted to get a sense, you said there is up to 10% impact in some operator revenues, is that function of you

know these operators proactively rolling out or implementing this ruling ahead of June 10th. You know I am just trying to get a sense of how this could impact your revenues may be in the near term, until you guys get a kind of compromise with the TRAI and get an alternative ruling in place. And then finally, I know you are not giving to guidance but I am going to try anyway. You said, seasonally, obviously this is the weakest quarter in about 17% to 22% is in your release. You know given the momentum you have in the international market this year, would you expect the first quarter to be at the low end of that number or at the high end of that number? Just any color on that would be very helpful.

Arvind Rao:

Okay, so I will take a couple and then Sanjay and Mouli can also add in their things. Your first question is on the Indian VAS market. Let's keep TRAI out of it, because we will deal with that separately. The key thing that is happening over there is that all the operators are expanding into the rural markets, and what we are seeing over there is that the average balance on new subscribers you know in many cases is less than fifty rupees, people are very poor and they are very value conscious, right. So, will there be, I would call it a hiccup, but will there be a temporary slow down as value-added services players like us and telecom operators launch new services as a method of tackling that, absolutely yes. I will give you an example. Take AdRBT as an example. If the user has very little income or very little disposable income, you have to look for alternate sources. In this case, we are looking to take money from the advertisers' pocket, right. So, you have to look for revenue streams from wallets beyond just the consumer. Now, to launch those services, it takes time. I mean as you all know AdRBT is a large project we have been working on it for a year. So, is there going to be a temporary effect on this surge into the rural market, probably yes. But in the long run, the number of services that are launched in value added services will be tailored and adjusted to counter that. So, in the long run I am not so worried. In the short run, could there be a small dip, probably yes. The second thing which is countering that to some extent is that we are seeing a large take up in terms of smart phones. Whether it is iPhones or even all the other look alike from HTC and from Bird and from Nokia, there are a whole bunch of these smart phones that are gradually making their way into the consumer market place because the price points for these hand phones are very aggressively being taken down by the handset manufacturers. Now, as that goes on and operators begin to operate their network with 2.5G and hopefully even 3G and the data plans are affordable at affordable rates, we are going to see some sort of an explosion in data services. When that will happen, I do not know but we can see the early signs that it is already happening. Those services tend to be very profitable, they tend to be very rich in terms of diversity. So that would be to some extent a mitigating factor on the whole rural trend. So, that is from the Indian side. I will ask Sanjay if he wants to say anything and then Mouli can also add.

Sanjay Uppal:

So, as Arvind was pointing out, you know, the Indian market is segmenting. Clearly, as low ARPU end of the segment, there is an expansion in the rural base and we are coming

up with services that will be attractive. Here also there is some creativity in terms of how to charge those people, so that we can continue to get good revenue with good margins. But there is also a, what we call the fat middle segment which is the big segment of VAS today and we do not necessarily see a slowdown in that segment, but when you combine it with the rural as Arvind was saying, you know in the overall blended ARPU, may be a temporary dip, but very important point is that the high end of the segment with the smart phones coming in and then the segmentation would be professionals on the one hand or teenagers that are really into social networking on the other. The numbers may seem small today but the trend is definitely there and what we can add here is again back to our social address book, network address book; these are the things that we are beginning to discuss now with the operators in India so that we can both get the attractiveness of the top end of this segment and there will be a trickle down effect just like we have seen in other places and what happens with the smart phones today is what will happen with the fat middle tomorrow is what will happen with the rural in the next phase. So, going after all of these segments with the diversity of services we have, that is the strategy that we are adopting.

Arvind Rao:

So, Mouli, you want to add anything here.

Mouli Raman:

Yes, quick. On the rural front on the one hand basically what we are seeing is that the consumers do really want the products that we have today which is Ring Back Tone and voice base they do really want it. The challenge is then as Sanjay said basically how to price it and package it. So, basically that is one thing that we are working with the operators and the content providers to package it in more flexible ways, so that is one thing basically. So that way the demand is there, if you price it and package it, the uptake should be good, that is one. And the second one is that we are seeing a lot of new opportunities, which we are working on, particularly in the area of basically how do you bridge the information gap. There are huge opportunities there and we are working on that too.

Arvind Rao:

Mouli, if I remember the dipstick analysis, percentage of ARPU that a low-end consumer spends on VAS, is disproportionately higher than the highest end post-paid customer, is that right.

Mouli Raman:

That is right, yes.

Arvind Rao:

You know, that is a healthy sign that we are seeing. Now, clearly the mix of products that we offer is going to change to cater to the segment. So, again as I said in the long run are we worried about that? No, It is not really a worry, it is just that we are altering and changing our product portfolio to match to the new segment coming in. So, let us TRAI very quickly. Sanjay, you want to comment on TRAI?

Sanjay Uppal:

I think you were quite right when you said that while the ruling went into effect in June, there were certain operators that decided to really have some changes in terms of how things were being implemented, particularly for double confirmation in advance of the ruling going into effect. So, which is why the effect for those operators was felt from a wide spread entire Q1 perspective and in particular from when the ruling went into effect.

Gaurav Jaitley:

Sure. And then just on the seasonality of the first quarter what you expect for this year?

Arvind Rao:

In terms of seasonality, really when you look at it, to be honest with you I cannot give you any guidance whether it's 17 or it is 22, but what I can tell you is that this year is going to be a heavy investment year given that we are planting seeds for these huge Telefonica and Vodafone deals. Now the Telefonica deals should start throwing off revenues in the Jan-Feb-March quarter because that is the time when the first set of countries are going to go alive. Whereas in the case of Vodafone, clearly they have gone live with Romania, Vodacom which is South Africa, very large is going to go on stream in October. So, that will be a little less back-end loaded, whereas Telefonica will be more back-end loaded as far as this fiscal year is concerned. I don't know but probably it will be at the lower end of that range, for sure.

Gaurav Jaitley:

Thank you gentlemen.

Arvind Rao:

We will take one last question.

Operator:

Certainly sir. Our final question comes from Mr. Himanshu Shah from Religare Securities. Please go ahead, sir.

Himanshu Shah:

Thank you, thanks for the opportunity. Rajesh, this time there has been an increase of almost 200 crores in fixed assets and in the deferred payment liability. What does it pertain to?

Rajesh Moorti:

Yes, this is related to the commitment. If you look at our press release, this is the initial commitment that we have made on the signing of the business agreement for South America.

Arvind Rao:

So that involves the whole bunch of pre-operative expenses that we will be investing for the period of the year.

Himanshu Shah:

Okay. So, we have already accounted for the same.

Arvind Rao:

Yes, we are factoring that in upfront because it is the commitment that we have made. So, once you have made a commitment, you can estimate the commitment, then it is only fair to let the street know about it.

Himanshu Shah:

Okay, fine. And just a final question. What is the difference between standalone and consolidated financial? Does it majorly pertain to Voxmobili or will it contain other international operations also?

Rajesh Moorti:

It will include the other international operations as well because we have subsidiaries around the world in Indonesia, Singapore, Telisma is another subsidiary, it would include that as well.

Himanshu Shah:

So, all that will not form part of standalone financials but they would form part of consolidated.

Rajesh Moorti:

The overall corporate structure that we have is that, we have a bunch of subsidiaries and we have branches. So, in the countries where we have branches like in Bangladesh or

Malaysia or South Africa, this will be part of standalone and wherever we have subsidiaries, it is a part of consolidated. But I think given that we have intracompany relations it is important that we look at the consolidated numbers, because that really gives a true picture of the business on ongoing basis.

Himanshu Shah:

Okay fine. Thanks a lot.

Operator:

Thank you sir. I would like to hand the floor back to Mr. Arvind Rao, over to you sir.

Arvind Rao:

Yes. So, I would like to thank everyone for this. Again, I just wanted to reiterate a couple of things. In looking at our financials, as we have said, the reason we have done this on a rolling four quarter basis because we believe that is the right way to analyze the business of this company and over there on operating profit basis as you can see while there has been a dip and the dip is reflected to two things, one is the heavy investments we are making for the future and the second thing is the temporary slowdown in one or two operators and due to the TRAI directive in India, that is what has caused the slowdown on that front. So, overall the core business is relatively solid. If anything with the international deployment kicking in and I am happy to say that Romania and we have launched in Middle East, which is also going extremely well. So, wherever we have planted seeds and they have started throwing off revenues, the trends are all extremely positive. So, we are not very concerned in terms of you know the long term trends and the long term prospects, nothing has changed on that front. So, again on that note, I would like to end this conference call and again as you all know that if at all any of you have any questions please feel free to contact us by email or by calling any of us. Thank you very much.