

OnMobile Global Ltd

26th October 2009, 17:30 Hrs IST

Quarter ending 30th September 2009

We are happy to present the performance of the Company for the Quarter ended 30th September 2009.

1. Background context – Indian Telecom Sector Trends:

The VAS revenue growth of a few of the big telecom players in India has dipped over the last few quarters and there was a significant correction in the first fiscal quarter of FY09-10. The trends are expected to remain negative for the second quarter as well. Even though the subscriber additions have been impressive, this has not reflected in equivalent revenue growth to the Operators.

We believe this is largely due to the impact of the TRAI guidelines on VAS promotion and the quality of the new subscribers being added in rural India. Furthermore we are cautious about the dynamics and prospects of the Indian telecom sector as a consequence of the number of licenses issued (and to be issued) by the regulatory authorities which will hurt telco profitability and possibly affect their capability to invest in network expansion to expand coverage and enhance QoS. On the flip side this decline in their core business has and will make telcos concentrate more on VAS and we hope, will result in higher commitment and emphasis on VAS relative to their core business.

Given this industry backdrop, over the last 5 quarters, our India business has actually managed to grow over and above the underlying market.

Given below is a summary of recent Subscriber base, total revenue and VAS revenue of the major Telecom Operators in India as a backdrop against our results.

	Q1 08-09	Q2 08-09	Q3 08-09	Q4 08-09	Q1 09-10	Q2 09-10
<u>Bharti Airtel</u>						
EOQ Sub base (Mn)	69	77	86	94	102	111
Total Revenue (Rs. Mn)	69,150	72,843	79,392	82,216	82,285	
VAS Revenue Excl P2P SMS(Rs. Mn)	3,803	4,152	4,287	4,604	4,114	
<u>Idea Cellular</u>						
EOQ Sub base (Mn)	32	34	38	43	47	51
Total Revenue (Rs. Mn)	21,781	23,006	26,209	29,356	29,759	
VAS Revenue (Rs. Mn)	1,939	2,258	2,595	2,789	3,006	
<u>RCOM</u>						
EOQ Sub base (Mn)	51	56	61	73	80	84
Total Revenue (Rs. Mn)	41,187	43,356	44,119	45,015	47,931	
VAS Revenue Excl P2P SMS(Rs. Mn)	2,636	2,645	2,691	2,746	2,923	
<u>Vodafone</u>						
EOQ Sub base (Mn)	49	55	61	69	76	83
Total Revenue (Rs. Mn)	44,663	45,375	53,280	62,529	59,683	
VAS Revenue Excl P2P SMS(Rs. Mn)	2,609	2,688	3,004	3,399	3,399	
Total	10,986	11,742	12,577	13,538	13,442	
Growth - Sequential		6.9%	7.1%	7.6%	-0.7%	
OnMobile India Revenues (Rs. Mn)						
	646	794	888	944	879	834
Growth - Sequential		22.9%	11.9%	6.3%	-6.9%	-5.1%

Source: COAI and AUSPI / Quarterly published financials / Internal estimates

2. Material New Developments – Customers

- For the first time in OnMobile history, an international customer has made it to the top 5 customer list - a positive development in our continued international diversification strategy.
- Kick-off in the first 3 Telefonica Operators has happened on schedule through the execution of our Parallel Deployment process. Deployments to start in Q3 and Q4.
- The second Vodafone Operator went live with RBT in South Africa under the global Vodafone agreement, again on time and schedule. The first deployment has exceeded targets and has the #1 penetration in the country in 5 months of deployment, overtaking competitors who were live with the same service for a longer time period.
- We went live with our RBT services in a leading Operator in UAE and seamlessly replaced an RBT competitor with increased penetration in the first quarter of deployment.

- Signed LOI for deploying our Music and Voice Portal services in an existing CDMA Operator launching GSM services in India and we signed an LOI for SMS services with a new entrant in the Indian market.
- Migrated the two former Spice Circles (Karnataka and Punjab) onto OnMobile platform on schedule.
- We have mutually terminated business with one of the Indian Operators, who we had mentioned last quarter was going through some internal restructuring.

3. Material New Developments – Products

- Released the OnMobile Family Calendar add-on to the Network Address Book and launched the first Connected Community for a leading mobile Operator in Germany.
- Launched the OnMobile Churn Management product in one of the leading operators in India for RBT. This has reduced churn on RBT by 10%. We have taken this encouraging result to sign up a leading operator in Indonesia for churn reduction on their core service.
- Launched OnMobile Phone Backup 2.0 which is a slimmed down SyncML based product that expands the coverage of this service across a wider set of handsets. Phone Backup 2.0 includes iPhone and Android versions which have been deployed this quarter across different operators in Europe
- The OnMobile AdRBT product has reached the next stage in deployment – results from the first circles at a leading operator indicate an encouraging 7% conversion rate. If maintained at scale, this could disruptively affect the large Indian advertising industry to our benefit.
- Our new Universal Messaging Platform was launched with 7 successful deployments this quarter; the platform combines all forms of messaging into one easing deployments and management.
- The OnMobile MMP2500 Voice Platform was enhanced with Multi-Party conferencing; the first product partners will launch services using this facility in Q4 09-10.
- On the Speech front, we launched new tuned versions of four south Indian languages continuing our lead in recognition accuracy in local languages. We also launched a balanced (client-server) based Speech Recognition product for the iPhone with the first deployment targeted for Q4 09-10.
- Antakshari, our first service on OnMobile Developer Network, has reached 200,000 users in 2 months.

4. Material New Developments – Organizational

Human Resources

- Two of our Key employees, Sandeep Ganguly – Head of Private Operators, India and Pratapa Bernard, Head Data Product Unit, India have resigned during the quarter. We have taken steps to ensure that there is a smooth transition with a minimal impact on the operations.

Offices

- New office registered in Sri Lanka, increasing our footprint in the APAC region.

Awards and Recognition

- Arvind Rao, our Chairman, CEO and Co-founder was awarded the prestigious Dataquest 'Path breaker of the Year 2009' award in recognition of his contribution in the field of Telecom and Infotech, in creating the biggest telecom VAS company in India.
- OnMobile's Information Security Management System has been certified to be ISO 27001:2005 compliant. This certification is a significant milestone in our commitment towards information security.

Others

- Based on our previous experience and learning through our deployments in different countries, we have developed a comprehensive Parallel Deployment Process to streamline all our future product deployments. This will help the predictability of our deployments and significantly reduce the timelines.
- Some of you might have noticed a recent, large transfer of shares from Arvind Rao in the last quarter. This is to clarify that these transfer of shares are not actual sale but transfer solely for the purposes of tax planning.

5. Material New Developments – Others: Update on TRAI Directive

The TRAI has issued a revised directive in the month of September allowing a simpler confirmation VAS purchase process to be made available to the subscribers through the auto dialer & press star to copy modes. The fresh recommendations replace the alternative double confirmation or the archaic request procedures like fax/e-mail proposed earlier which was cumbersome for a subscriber to subscribe and confirm purchase of Value Added Services. The new procedures finalized would help safeguard the interest of the subscribers while still not compromising on the simplicity of the purchase/selection process. This definitely augers well for the industry in terms of bringing in more subscriber confidence & satisfaction.

We expect the impact on the revised directive to be materially less than that estimated for the original directive while still adhering to the goals of the Regulatory authority.

6. Non Financial KPIs – Last four quarters

KPI	Dec'08	Mar'09	Jun'09	Sep'09
Subscriber Reach (Mn)	550	600	630	687
Unique Users (Mn)	45	57	64	71
Active RBT Users (Mn)	30	33	37	40
Calls handled (Bn)	8	10	10	10
Number of Employees	1,133	1,146	1,154	1,223
Countries Live in	22	22	23	23

7. Financials – Sequential (Current quarter Vs. Last quarter)

Rs. Mn	Q1 2009-10	Q2 2009-10	% Gr
Revenue	1,072.4	1,086.3	1.3%
COGS	298.2	306.8	2.9%
Gross Profit	774.1	779.5	0.7%
Gross Margin	72.2%	71.8%	
Total Opex	530.2	644.4	21.5%
EBITDA	243.9	135.1	-44.6%
%	22.7%	12.4%	
Depreciation	133.1	82.2	-38.2%
Operating Profit	110.9	52.9	-52.2%
%	10.3%	4.9%	
Other Income / (Exp)	48.7	68.5	40.6%
Profit before Tax	159.6	121.4	-23.9%
Tax	72.9	14.4	-80.2%
Profit After Tax	86.4	98.7	14.3%
%	7.7%	8.6%	

Refer Core vs. Investments section for quarter 2 summary.

8. Financials – Core vs. Investments

Last quarter we started providing visibility into the breakdown of core business and investment activities. We continue to provide this information to help investors understand our business better.

Rs. Mn	Core Business		Investments	
	Q1 09-10	Q2 09-10	Q1 09-10	Q2 09-10
Revenues	1,041.4	1,067.6	31.0	18.7
<i>Domestic</i>	807.5	793.2	7.4	-
<i>International</i>	233.9	274.4	23.6	18.7
COGS	293.9	301.2	4.3	5.6
Gross Profit	747.5	766.4	26.7	13.1
Gross Margin	71.8%	71.8%	86.1%	70.2%
Manpower cost	269.0	312.7	76.3	53.1
Other Opex	148.2	171.7	36.7	106.9
EBITDA	330.3	282.0	(86.3)	(146.9)
%	31.7%	26.4%		
Depreciation	129.6	70.6	3.5	11.6
Operating Profit	200.7	211.4	(89.8)	(158.5)
%	19.3%	19.8%		
Other Income/exp	48.7	68.5		
Profit before Tax	249.4	279.9		
%	23.9%	26.2%		
Tax	72.9	14.4		
Profit After Tax	176.2	257.2		
PAT %	16.2%	22.6%		

To re-iterate the understanding of what constitutes investments, given below is the definition that we follow on a consistent basis:

New Customers: Investments (e.g., hardware, third party software, manpower costs, travel) in new customer deployments till 1 year following launch of services.

New Products: Large, measurable and discreet expenditures in new products development and deployment till 1 year following launch of this product in the first Customer.

Key Highlights and Observations:

- As a result of new order flows in our Data Product Unit in Europe, our international revenue as a % of total revenues has increased to 27% from 22% in Q1. Also, for the first time, our revenue from top 5 Customers includes revenue from an international customer.
- Our core business continues to be strong. The extent of the investments on our Operating Profit in the second quarter of this financial year is Rs. 158 Mn. A significant increase in Other Opex is due to investment towards Telefonica deal, which includes unrealized forex losses, travel and legal & professional fees amounting to Rs. 70 Mn.

9. Financials - Rolling 4 Quarters (Current year vs. Last year)

Rs. Mn	4 Quarters ending Sep 08	4 Quarters ending Sep 09	% Gr
Revenue	3,246.2	4,469.1	37.7%
COGS	551.2	1,065.0	93.2%
Gross Profit	2,694.9	3,404.1	26.3%
Gross Margin	83.0%	76.2%	
Total Opex	1,639.7	2,233.9	36.2%
EBITDA	1,055.3	1,170.2	10.9%
%	32.5%	26.2%	
Depreciation	355.5	455.2	28.0%
Operating Profit	699.7	715.1	2.2%
%	21.6%	16.0%	
Other Income / (Exp)	181.4	262.7	44.8%
Profit before Tax	881.1	977.8	11.0%
%	27.1%	21.9%	
Tax	241.1	267.4	10.9%
Profit After Tax	639.7	702.2	9.8%
%	18.7%	14.8%	

- 4 Quarters ending Sep'09 financials include revenue and costs of Telisma for all the 4 quarters as against only for 1 quarter in Sep'08. Impact – EBITDA lower by 3.8% and PAT lower by 2.7%.