

OnMobile Global Limited

Investor Conference Call – Q4

4 May 2009

Operator:

Thank you for standing by and welcome to the OnMobile Q4 Investors Conference call presented by Mr. Arvind Rao. At this time all the 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 *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.

Mr. Arvind Rao:

Thank you. Good morning everyone, investors, share holders, potential investors and welcome all of you to this conference call. We are going to be discussing our full year results which we released last week and we are also going to talk a little bit about the quarter-to-quarter financials and how we see our industry and our prospects going forward.

The format for this call, we are going to do it in four sections. The first part is we are going to talk about the business highlights, what were the material developments that happened in the last year which was the foundation and the underpinning for the results that we have declared. I think it is extremely important that everyone understand and observe these and therefore the financials are seen in the right context, so that is why we want to deal with this first.

The second thing after that is, we will discuss the financials, both the full year and the quarterly results. After that I want to have a small discussion on the future and how we see the future going forward. Because in these turbulent times, I think the amount of uncertainty relating to any company is at an all time high and I wanted to address that heads on and give you some sort of a perspective as to what is happening inside the Company.

Finally, the last part will be the Q&A where we can answer any questions that any of you may have. Again like last time what we will do is, we will try and restrict this to sort of the ones that are most relevant and pertinent to everyone. If there are specific questions that any one person has, we can log it and discuss it off line later on so as not to waste other people's time.

We have circulated a 2-page summary on the talking points and the summary of the results. I hope all of you have received it, so I am going to use that as the basis for the first part of the discussion which is the business highlights.

The first part to talk about is the material new developments and this has to deal with customers. Because at the end of the day, revenue growth and customer growth is sort of the biggest, what I would call, as an indicator for the ongoing prospects of the company.

In this respect, I am happy to tell everyone that at the end of the last quarter we signed a global agreement with Vodafone, which as you know is the largest operator in the World. Vodafone has been a very close partner of ours in India for the last 8 years and we have been doing some pretty spectacular results with them in terms of Value Added Services. Just to give you some perspective, what that we have done with them over the last 8 years in India alone has seen a compounded annual growth rate north of 80% a year, which is absolutely unique from a Customer's standpoint. And not surprisingly these results were observed and came to the notice of Vodafone Global and they have studied it, we have been in discussion with them for quite a long period of time, over 1 year in the making, and this has resulted in signing a global agreement where our core products, which is Ring Back Tones and Voice Portal, are going to be rolled out in multiple countries around the world by Vodafone. So this is extremely strong testimony to both the results that we have in India but more importantly the way a large global Telecom Operator evaluates our products at a global level relative to competition from Companies in the United States, Europe, etc. So this is an absolute outright win for both India for the software products sector and for OnMobile.

In addition to that, we have done a couple of other things with Customers. The first one is we have signed up with two more Operators in India to provide Voice Portal and RBT Services. This more or less completes the reach in India. We have gone from like 98% to 100%. So, today we are live with just about every Operator in India and our reach as I said is 100% of the subscriber base.

We have also launched with a leading operator in India, 'person to application SMS' Services. This is the first time that we have launched products in the P2A SMS space. We have traditionally stayed out of this space because we felt that the margins were lower but right now given that it is a complimentary and a cross selling relative to our other products, we have actually found that if we do it now, that we are live with all our other products, the margins can actually be quite attractive. That's why we have gone ahead and launched it.

The other material announcement is we have launched our first RBT customer in Europe. This is material because, so far, Europe is a very advanced market for telecom services, but it is not advanced for Ring Back Tones and they have not seen the success that we have seen in India and Asia with our Ring Back Tone services. And therefore they were skeptical about it and it has taken a lot of convincing a lot of hard selling to convince operators there to launch with us. So this is the first win and we are really hoping and looking forward to doing a good job, delivering the same results that we do in Asia, and assuming we can do that, we should be able to crack open the large European market for our services. So this has been a great win for us as well.

Next point is that, in Bangladesh, we have seen some spectacular results. We started first with one operator, then with a second operator, today we are live with almost all the major operators in Bangladesh. So that has become almost like another country play for us, which will be the third country play. As you know we have already live with several operators in Indonesia, Bangladesh is the next country. And we hope to replicate this

model in more and more emerging market countries so that we can replicate the overall India success and India market dominance that we have in some of the overseas countries.

Finally, we have signed several new customers also, apart from the ones that I mentioned, in Asia Pacific, in Europe, and we are in close discussions with several operators both in North America as well as Latin America. So, in other words, our strategy of going international has actually seen tremendous traction and great fruition in the last one year. And I am really quite excited that from being a dominant Indian VAS company our strategy of going global and becoming a dominant and a leading global VAS player is actually beginning to pan out and showing tangible results. So, that is the first part dealing with customers.

The second part which is dealing about products, because fundamentally we think about our company along these two dimensions, which is Customers and Products. So regarding products I will ask our CTO and Co-founder, Mouli Raman to talk a little bit about the innovations and the progress that we have made on the Products side.

Mouli Raman:

Thanks Arvind. Good morning everyone.

The first one is, as you know, we acquired Telisma last year, and after acquisition of Telisma we have been aggressively pushing the envelope on Speech Recognition Technology and we have integrated Telisma's Speech Recognition engine with our platform and launched music search on voice in a leading Operator in India and we are seeing excellent results. As you know, we had launched MSearch, music search, on SMS a few quarters back and between MSearch on Voice and SMS we are getting about 10 million users in the Operators that we have launched, and about 20% of all the users who are coming to use MSearch are doing a selection. Primarily this is being used for selecting Ring Back Tones and the conversion rate is very good.

The second one is, as you know, we are working with many operators in one form or another in Ring Back Tones. Since we have presence across all operators we actually linked all the RBT systems to do cross operator star to copy and it is showing very good results. About 30% to 35% of star to copy happening in any Operators is actually being done on another Operator, so this is a very good launch that we did last year.

The third one is OnMobile developer network. As you know until last year we have been developing all the applications on our own platform and now have actually opened it up so that it is possible for others to do it. We are in the beta stage and we have about six partners and it is doing very well.

The other one is again with Telisma, we have developed four new language models, primarily Asia Pacific and Africa.

The next point is we launched MRadio, as you know, MRadio is doing very well in India and we launched MRadio in two large operators in Asia Pacific market, and in a very short period of time it has become the second most successful service after Ring Back Tone.

The next point is that we have managed to cross sell many of our products in our existing customers which includes on device portals, phone backup, find a friend, MRadio, and so on, and this we have managed to do both in India as well as outside of India.

As Arvind touched upon before, we also got into messaging which is SMS and USSD last year and we have seen some good traction there.

Last but not the least, we went live with AdRBT countrywide with one large Operator and we expect to see the results over the next few months.

So that is all for now on the Products side and Arvind could you please take it over for the Organizational updates.

Arvind Rao:

Yeah. Before I get into it, let me just put some of the things that Mouli has said into more of a business perspective. Because as a core engineer and products guy, he tends to talk about it more from an engineering standpoint. But just on the first one in terms of Music Search that we launched using Telisma Speech recognition, I wanted to say a couple of things. This is the first time in the world that you can say the name of a song, the song comes out, you know many of you have seen the AirTel Gaana Bolo with Saif Ali Khan and Kareena Kapoor, which was a huge marketing campaign by Airtel. Well I am happy to tell you guys that the underlying technology and the service for that were all done by OnMobile. That was the Music Search launch that we were talking about. And just to put it in perspective, the number of searches that we are getting for songs in India using this technology is more than the searches that Google and internet searches happen in India. That is the prevalence of mobile and how much it has surpassed the Internet in terms of searches in India. So, that is testimony to one of the things we feel that actually in emerging markets, mobile value added services will actually be a much much larger market than the internet for the foreseeable future and our company's strategy clearly is to be the dominant player in that space, so that is very exciting to us.

The second point Mouli talked about, which was the cross-operator press star to copy, I want to make a bit of an observation on this. In the value added services space, we are the only company that has a strong suite of VAS services live across all operators in India. And this gives us a unique position, in that, we can deploy cross-operator services which nobody else can do. So, for example, if you want to launch services where one Operator's ring back tones can be copied on to another Operator or if you want to launch programs like advertising, where an advertiser would want their products advertised across all operators, not just on one operator, you know, those sort of services we are the only company that can do that in a major manner in India. So, in the next year or two

years we are really looking to leverage the cross-Operator position that we have built up over the last 7 years and which is unique and powerful to just us.

The third thing that Mouli talked about which was the OnMobile developer network, that is really opening up the platform for third party application, so think about it somewhat similar like what Apple did with the iTunes store and with the iPhone. They created a very powerful platform in the iPhone and then they opened up iTunes so that just about any application developer can launch their application through that network. We are doing the same thing with our platform as well, so that is also going to see some very good results over the next 3 to 4 years. So those were just some of the highlights I wanted to add on products in addition to what Mouli has talked about.

So now I will quickly cover some material Organizational developments that have happened in the last quarter. The first one is that we have hired a President and Chief Operating Officer, Sanjay Uppal. He has come over from the Valley where he was based and lived in Silicon Valley for a long period of time like me and he was formerly with Citrix, he was the Vice-President of application networking and he has had a long history even with Hewlett-Packard in the US where he cut his teeth and learnt all of the best practices and good software product management skills that they have, and we are really looking forward to him coming in place and putting in place all the hardcore processes, systems, and the organizational structure that we need for growth. Because the challenge for us going forward is not just going to be sales, because in sales, for example, as a combination of the Vodafone contract and many other such contracts, we have a sales pipeline that we can barely execute against. So his job is to actually scale up the organization and the processes in-house to allow us to execute against the customer opportunities that we have already signed up. Today, we are no shortage of sales pipeline, we are completely swamped with what we can do. So his job is to actually build it out so that we can actually translate the customer pipeline into revenues in the coming years. So Sanjay is onboard, he is on this call, so welcome him to this and over time he will be more and more actively involved in the management of this company.

The second major hire we have done recently is Shampa Kochhar. She comes in as the head of HR. She was formerly with AOL, Citi Bank and Spice. She is coming in to help us build out the HR, and again as I said, we see execution particularly both in India and overseas as our major challenge going forward, not sales and not business development. So she is going to be a key part to help us scale up as well.

We have also opened some new offices. We have opened offices in South Africa, which is our first foray into the large African Continent. We have several exciting things going on out there and it is basically a completely new continent that we are going to plough quite a bit in the years coming forward.

Finally, the last point in terms of business highlights has to deal with other material developments. One of them is that TRAI directive, but before that I just wanted to comment on one more thing. Many of you have asked about M&A and as you know we are in the market for M&A and we have been looking, we were in serious negotiation

with one or two companies last year. One was a very close transaction which almost happened but we did not consummate in the end, because after extensive due diligence we really found that the quality of the assets and the revenue potential was not commensurate with the price that was being negotiated and they were not willing to go under. And again you know, while we have a lot of money from the IPO and we are looking to do acquisition aggressively, we are not going to do a bad deal for any reason whatsoever. So we decided to walk at the last minute. We continue to be looking for M&As, we still have several openings and we are talking to several companies both on the market side and the product technology side, and we will continue looking for M&A. I am hoping that we can get another one or two deals done in the next 12 months, but again that is going to be completely subject to finding the right companies and the deal happening on the right terms and at the right price.

So now, there has been a TRAI directive that I just wanted Mouli to make a few comments on. Because we do not know how it is going to go, we have filed our observations, but we just wanted to flag it, because it could to be a material development going forward. So Mouli just talk briefly about it.

Mouli Raman:

Last week TRAI had come out with the directive to seek an additional explicit consent from the consumers in case of out bound dialers and star to copy. I mean, they have asked for additional explicit consent either through SMS or e-mail or fax from the consumers. So, while we agree with the issue raised by TRAI, we believe that the recommendations given by TRAI are not necessarily in the interest of the consumers and hence we are in touch with TRAI on how it could be implemented. Fundamentally, we agree the issues to be addressed, how it has to be addressed is something that we are in touch with TRAI along with the Operators and other VAS players. I think probably it will take about a month or two before we discuss with TRAI and come to conclusion on this.

Arvind Rao:

We will continue working with TRAI in fixing that thing.

Now I am going to turn it over to Rajesh Moorti, our CFO, to discuss the financials. Rajesh, I suggest you start first with the full year FY 08-09 versus the previous year because that is the most relevant comparison and then just give it some highlight.

Rajesh Moorti:

Thanks Arvind. Good morning everyone.

As we started the journey as a listed entity more than 12 months ago, we had highlighted the fact that this company cannot be looked at on a quarter-to-quarter basis and when you look at our results for the full year FY 08-09 you will understand why we made that statement.

If you look at our full year numbers, our revenue for the last year was around Rs. 406 Crores that represents a 55% growth on the previous year. Our EBIDTA was Rs. 127 Crores, which is 31.3%, and our PAT was around Rs. 85 Crores and that was around 19.4%. And that gives us an EPS of around 14.3, our EPS grew by around 23%. This is out full year consolidated numbers and if you look at our revenue line, our international revenue accounted for roughly 23% of our total revenues. The issues that impacted our EBIDTA was twofold, one is the increase in the direct cost related to some of the new initiatives that we took and some of the strategic decisions that we made and also the higher content costs. We actually managed to compensate the higher impact of the direct cost by strict cost control and cut back on the discretionary expenditure and therefore if you look at our business profitability, our profitability was substantially higher in the second half of the year as compared to the first half. So, overall, we are broadly in line with what our internal estimates were, that is what I want to talk about on the financials. Arvind, back to you.

Arvind Rao:

I think now what we can do is I will just talk a little bit about the future and then we will open it for Q&A.

So, going forward, on the future here is what I wanted to say. From a strategic standpoint, the company has got two target markets. The first focus market is emerging markets. So clearly, India is our core and then from India we are talking about SAARC which is you know Nepal, Bangladesh, Pakistan, and Sri Lanka; the large markets. From there we have a stepping stone strategy into the neighboring emerging markets which are Indonesia, Malaysia, Philippines, and all the way down to Australia. Then from there, we have stepped into Africa and now we are going into the developed markets of Europe and the Americas. So our strategy market wise has been step by step by step going from strength to strength, we have been very careful about not trying to overreach and fail, because you know the track record is the most important thing that we focussed on.

Now, in these markets, I believe, that MVAS is going to be an industry that is going to be larger than the internet, and that is really huge in size. The one distinguishing feature about this industry is we do not have the likes of a Google or an Amazon or a Yahoo or an eBay who are clear leaders in their respective domains or sectors. Now even if you look at Companies that were originally there in value added services like many of the Chinese players, they have tended to stay in China and dominate the Chinese market. They have not succeeded in going global. That is the Company that we want to be. That is the slot we want to be. We want to be dominant in India but then a global player and a global leader. In the last one year we have actually shown that we have between our Indian cost structure between our Indian IP innovation base and between the software brain power that India brings to the table, that we have actually been able to develop products that companies like Vodafone have certified our cutting edge and leading and the best in the world and have actually said that “yes, we will endorse it because this is

what is best to take on the rest of the world". So that testimony is actually proven our capabilities and we hope to go more and more global going forward.

The second point is, I want to still maintain to all investors that we are still in the very early stages of growth of this industry. I mean if you put it in perspective and if you believe what I say which is that VAS is eventually going to overtake the internet in terms of size, you know, that tells you that the industry is still in extremely nascent stages today and the name of the game really is market share and real estate slots. It's not about revenues, and it's not about margins. It is really saying that if a large operator, Telkomsel in Indonesia, very large, with whom we recently signed, if they are looking for player that they can do Voice Portal or something and we grab that slot, we do a hard sell, we convince them of our capabilities and we get that slot, then that slot is ours for life, unless we screw up on execution. So really, what we are doing is, we are putting our best foot forward and in all large operators around the world, we are trying to grab the slots that will position us to be the number 1 player in value added services over the next decade. That is what we are trying to do, and hence we will continue to be in build mode, although as I have said, we will keep an eye on margins. I mean, technically if you wanted to go full out on build mode we could take margins all the way down to 10% or even lower than that. We are not going to do that, we are going to try and maintain margins at the levels that we have talked about, but at the same time if we see really good opportunities for market share and for growth for the future, we are not going to let those up. So, for example, even this AdRBT program that we have talked about in the past that is now going nationwide with Vodafone in India, who is our lead customer for that, and you know we should be live with the full service in about June or July and start showing results in the quarter thereafter. Now that is the very very large programs, it has taken a lot of investments from the company, we believe technically it is one of the most challenging but it could redefine the whole advertising industry from a digital standpoint, and we are going to go and do it because that is what companies like us do well and we want to set examples. If you are sort of a shy and afraid of things then you are never going to take the advantage of market opportunities as we see it.

So, on that basis, I am going to turn it over to Q&A,

Operator:

Certainly sir. First in line, we have a question for Mr. Gaurav Jaitly from Reliance Equities. Please go ahead sir.

Gaurav Jaitly:

Okay thank you and good morning. I had a couple of questions.

First, congratulations on the Vodafone deal, obviously a great win for the company, and it significantly increases your addressable base, so that is great. I just had a question on the revenue side, just on the TRAI ruling, you know obviously you are working the commission to come up with alternative methods but given by some of the matrix that the

TRAI said specifically that almost 24% of ring tones are done inadvertently, so customers are not requesting it specifically. Just some color from you on how this could potentially affect your growth in the near term until you come up with an alternative solution with the commission. That will be great.

Secondly, on the margins, you know revenue growth was great this quarter, above our expectations, but margins came in a little bit light and below your kind of soft guidance for the year of 20% to 21%. You cited some higher content cost. Was this higher than you guys were expecting, is this a revenue mix issue, any color on that and what we can expect going forward? That will be great. Thank you.

Arvind Rao:

Okay, I will respond to both and then Rajesh and Mouli and Sanjay can add.

On the TRAI directive, first thing is we believe that the concerns that they have raised are correct but the method of solving them is not correct in our opinion. Just to put it in perspective, press star to copy, the innovation that we launched in India has actually been copied in several parts of the world, so they have taken it up as well. So there is nothing wrong per se with the innovation and the concept. The question is that if people press inadvertently and they find they are mis-charged, if they call the service operator do they get a refund and that has been happening consistently with all operators that they have talked with. So, you are going to have this sort of an issue wherever you go that people can complain, now whether the right number is 24%, the right number is 10%, was the sample size correct, was the survey methodology correct, all those are debatable points. We believe that when you have a large number of people, millions of people using the service, we believe that the numbers may not be representative of the overall base and we believe that the corrective action being taken by Operators is actually quite adequate, may be it can be beefed up a bit. So we are in discussion with TRAI to do that.

If the TRAI directive does hold firm and solid, there will be a slight hiccup on our revenues, but here again we do not see it material and we do not see it material in the long run in terms of our ability to recover from that and make up for it elsewhere.

Your second point which was on the revenue growth and the margins, again as I have said on the margins side so long as it is in a certain band, we are not going to worry about it. I am not going to come here and tell you guys that pick a number here, say 1 percentage of our margin was lower because we spent a lot of effort on getting Vodacom signed, we are deploying Vodacom, all the people resource cost and the hardware cost for getting that deployment underway is being written off as we speak, but it has got no revenues. We aren't going to sit and justify that drop at that level because we are going to do what is right for the business as I said, and there have been whole bunch of things. I mean, like last time for example, we can make a list of all the items that have absorbed, which have not yet started generating revenue whether it is AdRBT continues, Vodacom continues, clearly the whole Vodafone Global agreement where we have had to talk with several Operators around the world. In fact the good thing about is all that effort is

already water under the bridge and many of those are actually fructifying now into contracts which are going to start generating revenues. So, between 21% - 22% and 19.4% now that is in the band, and I do not view that as a material sort of observation in any manner whatsoever. And in fact at this stage of the growth if that number instead of 19 was 15,14 or 13, yes then I see that there is some reason to get concerned. But at this level we do not really think about it at all. Rajesh and Mouli, do you guys do you want to say something.

Rajesh Moorti:

Arvind, just to add to what you said, a couple of quarters ago when we were discussing the results one of the issues which was highlighted is that the other income is adding to the bottom line, but if you look at the second half of the year, we have been extremely conservative, we moved our surplus funds to fixed deposits and all of know how the interest rates on fixed deposits have come down, that actually has diluted our PAT to certain extent.

Secondly, we cannot look at the business on the quarter to quarter basis, Q3 we had a significantly higher contribution from our consolidated subsidiaries and we had mentioned at that time saying that the Q4 is relatively smaller because of the business seasonality. So if you look at all these things together, we have maintained our EBIDTA and the operating profit at a much higher level than the first half. First half our operating profit was only 16%, the second half is 24%, so that clearly shows that the business performance overall has improved significantly. Again, I will comeback to the full year numbers to be compared for a like to like comparison rather than quarter to quarter.

Gaurav Jaitly:

Thank you gentlemen, that is very helpful. If I could just followup, just a broader context I mean there is obviously a lot of things that is going to affect your next year's results, your new product launches, the Vodafone result, if you just could help us you know with a broad, you have been very helpful in the past in giving us a broad guidance for revenue growth or margin. A broad guidance would be very very helpful just given the difficulties in kind of modeling the company that will be very helpful. Any color on that just in term of your next year outlook for revenue growth and margins that you are internally modelling?

Arvind Rao:

Let me respond to that. Right now as you know the world is in tremendous turbulent and uncertain times. We have said you know in context of that and context of many other developments that are underway in terms of Vodafone and stuff which are longer term, we would rather not give formal guidance, although the one thing I can tell you is that fundamentally from what we have said in the past there is nothing that has materially changed for the negative in our business and if there have been any changes there have been only changes for the positive, and if you fundamentally look at the margins and the

prospects in our business, as we get larger and larger, like in telecom industry we are going to see a couple of things. One is you are going to see the market power and the market dominance increase. Because the larger you are the greater credibility you have with customers and your ability to increase market share both within the customer and across customers actually goes up the larger you get. And we have seen this in spades in India because as I said if I take a snapshot comparison of us today versus say four years ago just in India, the competition has completely fallen away. And today I don't lose any sleep over competition in India at all. If at all I worry about competition it is competition overseas. Who do I compete with in Latin America, who do I compete with in Canada, so and so on forth. I don't even miss a step thinking about competition in India.

The second thing is there are scale economies that come to play and as I said before if we were to exploit the scale economies that we have in place even today, we could take margins up to twice what they are today without trying, within two quarters. But we are not going to do that. We are not going to do that because of a simple thing, because we see huge huge market share gain opportunities anywhere in the world, and it is a shame given our track record and given our capability, I mean we have customers calling us saying please come and talk to us and tell us our products, we have heard such great things, we want you to come and deploy. That's going to take an investment from our side to do it and if the ROI and the business case makes a lot of sense, we are going to do it. There are no two ways about it. I don't want to give out formal guidance and stuff and then be hamstrung by that in the face of the opportunities that we are seeing. So I think what we are going to end this thing by saying is that, we have made statements in the past about what we see, you know 3 or 4 year growth in terms of trajectories and in terms of trends for both the revenue line and the margin line, and we see nothing that has changed our perspective on that front.

Gaurav Jaitly:

Fair enough. Thank you. Good luck guys.

Operator:

Thank you sir.

Next in line we have a question from Mr. Gaurav Malhotra from Citi Group, please go ahead.

Gaurav Malhotra:

Hi! Thanks for the opportunity. I just have 3 - 4 questions. First is if you could just give us what is this other expenditure, what does it constitute because that seems to be trending downward, that's my first question. If you can just answer that.

Rajesh Moorti:

The other expenditure means all other sales and administration expenses, that is essentially the cost of the facility, the travel, the communication, the marketing spend of the company. As I said before that our costs are relatively fixed across the quarters and therefore as the business ramps up and the revenue grown, this as a percentage of revenue had come down quite a lot.

Gaurav Malhotra:

Okay. Just going back to the content cost, that number as a percentage has been going up quite significantly, if you can just highlight as to what are the reasons for it?

Rajesh Moorti:

It is the direct cost and it is not necessarily only content cost. What it includes is content pay out, it includes pay out to our media partners, it includes the software and hardware development costs. I do agree that content cost is the one that has grown more than the other line items, and that is mainly because of two reasons. One is that we had some strategic deals early this year where we had agreed to payout some money upfront and we are still in the process of exploiting that content more gainfully. The costs have come in upfront, the revenue would flow in later, and secondly the content cost per se, Mouli do you want add something.

Mouli Raman:

Overall, the content costs have gone up and we are working on various ways in terms of coming out with new products which are more reliant on non branded content than the branded content basically. So we have taken a few steps to reduce the content cost as the percentage of revenue and over the next year or so basically we should see some results on that.

Gaurav Malhotra:

Okay, just 2 to 3 small questions. One is on, if I just take a look at your income yield that seems to be quite high, I am just wondering that the other income constitutes stuff other than just pure interest income?

Rajesh Moorti:

Actually, on the consolidated line we do have other income as well, which is essentially the tax-credit that you get on the R&D expenditure in Europe. That is reasonably large item. Other than that it is only the dividend income and the interest income on the investible surplus.

Gaurav Malhotra:

Okay, and just on your debtors, the debtor pay seems to be like almost 3 months, I would assume that it should be may be closer to a month or something, am I correct or I am doing something wrong over here?

Rajesh Moorti:

It is not so Gaurav. The reasons for that being that there is 1 month of unbilled revenue because as on 31st March, when we close our books, the billing for the month of March has not yet happened, and so broadly the debtors have to be split into two, the billed and the unbilled, and typically our time to collect is around 2 months.

Gaurav Malhotra:

Okay. Arvind did not give out any formal guidance, I just had one small question, what would be the effective tax rate for a FY 10, if you can just tell us on that.

Rajesh Moorti:

Our effective tax rate would be in the range of 30%.

Gaurav Malhotra:

Okay. You have given us the standalone balance sheet, I just wanted to know what is the cash in the books on consolidated balance sheet as of FY 09?

Rajesh Moorti:

It was around Rs. 285 Crores.

Gaurav Malhotra:

On a consolidated basis?

Rajesh Moorti:

That is right.

Gaurav Malhotra:

Okay. Thank you so much.

Operator:

Thank you sir.

Next in line we have a question from Mr. Shubham Majumder from Macquarie. Please go ahead.

Shubham Majumder:

Congratulations gentlemen for a great set of results. The numbers clearly are higher than where you had given your revised guidance at. I had 3 questions.

The first would be on Vodafone Global deal, clearly I understand that these are very early days and sell cycles you know when you go and sell into individual markets for the Vodafone entities will take a long time, but would you be able to give us some medium-term guidance, maybe 2 years or 3 years out, not holding you down to a quarter to two quarters, but basically 2 to 3 years out, where do you see the opportunity stacking up at regards how many countries out of this 35 world markets would you be able to sell into and what way to basically model this even from a medium-term perspective? Any color in terms of being able to come up with a revenue or EBIDTA number here would be very very helpful.

My second question is basically in terms of Bharti Airtel engagement, would you be able to give us any sense whatsoever in whether you are able to broad base your engagement outside of the four circles that you are already selling them to. What is the kind of visibility that we have here and if there are any milestones that you need achieve here?

Three is, if you would give us a sense of the relationship with Telkomsel as to what all it encompasses?

What would be your biggest operator relationships on organic basis that you have build with Vodafone over the last 1 or 2 years in the Asia, Africa, and Middle East markets? Thank you.

Arvind Rao:

So, I will take a couple of them and I think we should break the questions so that we can remember what you said first.

First one on the Vodafone deal, very simply, to be honest with you, we have not modeled the Vodafone contract in terms of revenues. We have modeled it much more in terms of how many customers there are out there in the Vodafone extended family and I must say that we are talking about the extended Vodafone family, so it is Vodafone 100% owned entities, minority owned entities, even entities where there don't have an equity stake but they have a marketing tie up, you know even those are all targets. And we are working with them in a diligent manner in identifying customer by customer by customer where we see the opportunity, and going after that. So it is difficult to put a number on it. We have not put a number on the whole contract, but if somebody asks me 3 to 5 years out you know the customers that are coming out of this contract, it could easily constitute

25% to 33% of the revenues of OnMobile at that stage, very easily, in fact I am being very conservative though it will be somewhere between you know 25% to 33% and may be even 50%. The reason I say that is because if you look at the list of Vodafone partner operators worldwide it is absolutely mind boggling, you know if you add up companies like they have gone and signed MTS, they have got a deal with China Mobile, they have got Softbank in Japan, I mean if you look they have got Verizon at the other end in the US, if you look across the entire network it is absolutely stunning. So you know this win for us which we have working on for a long period of time is actually something to be extremely proud of, because you know at the highest level they have validated sort of the products that we have. So, it is going to be a huge win, it is going to be over time. The other thing I can tell you is you know even though we have signed the contract in the last quarter we actually started working with operators in the Vodafone family way before that, so like I have said we have just gone live, in fact last week with the first Vodafone non-India company that is in the Europe, we have gone live with them last week, and I am very happy that is the first RBT (Ring Back Tones) that we are deploying in Europe under this huge contract. I am very confident that we will be able to deliver outstanding results on that with a great team and you know that is going basically crack the dam wide open.

The other thing is that even after that European deployment, Vodacom which is the very large South African operator, which is the flagship of Vodafone in Africa in the entire continent, we have signed them up already, they are well under deployment, we are planning to go live in the August – September timeframe. So, the point to make to you is we have already started executing against this contract and the first 2 - 3 operators are going to go live very soon. So, I am very bullish about the overall prospects and you have to remember one thing, telecom is all about case examples and showing results. So I am fairly confident that even when we launch with the Vodafone operator in country X anywhere in the world and if we do a banner job and deliver great results, believe me all the rest of the operators in that country are sitting ducks for our deployments and we have seen that happen. You go live with one operator in any country and deliver outstanding results, before you know your phone starts ringing and everybody else starts calling you saying hey come and talk to us, so you do not need to do anymore sales in that country. So for me this is really cracking open the entire world to a large extent.

I think the third point you asked was Telkomcell, I am sorry if I missed your second point. What was the second point?

Shubham Majumder:

Can you just answer my third one before...?

Arvind Rao:

On the third one, which is Telkomsel. Telkomsel is something that we have signed recently, it is a largest operator in Indonesia. We are going to go live with our Speech Recognition and Voice Portal Technology, so you know again that is testimony to our

whole strategy for emerging markets which is basically saying that we are going to be Speech Recognition and Voice led rather than being data centric led, because we believe that is the right way of cracking the market open and that was what the reason why we actually did the Telisma acquisition.

The other interesting thing to note is that just like the Vodafone deal we are looking for other such global deals that we hope to do and if anybody can notice if I look at the SingTel family, we are live with Optus in Australia, we are live with Airtel in India and now we are going to be live with Telkomsel, so you know you can read the writing on the wall as what we are trying to do out here with them.

Shubham Majumder:

Arvind, that is very helpful. As a follow on to the Vodafone question earlier, would you be able to give us a sense of who basically was the incumbent provider of mobile music and CRBTs and so on and so forth in the markets that you will be going live with Vodafone on over the next few years. Just try to understand what it took to basically displace those guys and get in because you know that will basically help you win more customers going forward, just the dynamics?

Arvind Rao:

If I look at the Vodafone network around the world, this is an example of just about any other customer that we have been targeting anywhere in the world, there are three what I would call is there are three scenarios and I am talking let us say about Ring Back Tones. The first scenario is where the customer does not have any service live today, that is the combination of two things, either they have not thought about it which is quite rare or they have seen other experiences in neighboring markets which have been lackluster and they have said hey this service is not going to work, it is not worth the investment, so we are not going to do it. So classic examples of that would be you know there are operators even in advanced markets like UK and Germany who have chosen not to do Ring Back Tones because they do not believe in it or they do not see results are going to materialize, so that is category A.

Category B consists of local competitors who have got some you know they are functioning RBT systems but they do not have all the bells and whistles and the advanced features that our platform has and therefore when they have launched with local operators the results that they have been able to deliver are actually pretty lackluster. So, for example, let us take large markets in say Russia for example. There are companies in Russia, small companies that have launched services with their operators, but the results that they are getting are roughly one-third to one-fourth of the results that we are making in India, and if you translate the two-third of the three-fourth results which is what I would call as a missed opportunity cost by the subscriber base, it translates into some very very large revenue numbers, I mean north of 100 to 200 million dollars per year per operator, and that is the revenue that an operator cannot afford to miss. So when we go after the category B situations, we walk in there and say hey you know we are live and so

many deployments all over the world and on average here are the results that we have been delivering to customers. It is documented, proven, we have customer references and testimonials to that affect. Now you see the delta between what we are delivering and what your local partner is delivering and the differential quantum is so high that we would urge you to pursue a replacement strategy with us, and guess what by the way we are not going to charge you anything upfront, we do it purely on a revenue share basis, we make it extremely easy for the telco to say yes, so that is the second category of competitor.

The third category of competitor consists of larger or well entrenched people. Over here I would include people like the Ericssons and the Huawei's of the world who are classic telecom equipment manufacturers. So they are coming from a different base, they do not have much experience, expertise, or the skill sets or resources for value added services but they see this market as something that could be very large in the future and they want to have a toe in the water. So in many cases they either resell some other local company's products or in some cases they have some in-house products, again as I said which have decent functions but they do not have the functionality that we have. Neither do they have the managed services business model which we deliver our products via. So, as a result again the local operators who have used strategy or option C have again seen the same lackluster results, you know 3%, 5% penetration, whereas we are delivering 25%, 20% on average. So, again it is a question of going to customers and convincing them about the lost revenue opportunity on the business case and that actually convinces them to switch over and go with us.

So, these are the sort of three categories on the Vodafone contract that we are dealing with.

Shubham Majumder:

That is a very helpful construct Arvind. Just the last question that you missed earlier was on Bharthi Airtel engagement, as far as I know, you are currently live on four southern Indian states with them. What is the level of engagement looking like going forward and is there a scope for expansion into the remaining 18 circles in India?

Arvind Rao:

On that basis, clearly from our standpoint, we are ready standing by, willing to, eager to, roll this thing out into one or two or three of the remaining zones. That is clearly a decision that Airtel has to make, it is not our decision or our prerogative. The only thing I can say is this, that the reason they picked us for one zone was again as I said exactly similar to the ABC situation that I talked about earlier. In this case, it was situation B, where the results that they were getting were much lower than what we were delivering in the same market. So, the most happy thing is that, when we did do the replacement, not only did we execute the world's largest RBT replacement on time and successfully but within two or three months of the replacement happening all the delta that was projected or planned has actually been achieved, delivered, and surpassed. And that is

what I really feel proud and good about is that, it was a Herculean effort, a great team effort from OnMobile, to do it, but as a result of that the revenues for the operator, the number of song downloads per user per month, everything has been absolutely on track and the business case for doing it has been completely validated and they know that, the operator knows that, they have seen all that. So, we are hopeful that they will allow us the opportunity to roll this thing out into one or more zones. But right now we are in hold mode, the decision is not ours.

Shubham Majumder:

Okay, thank you, Arvind.

Operator:

Thank you sir. Next in line, we have a question from Mr. Sameer Naringrekar from BNP Paribas. Please go ahead.

Sameer Naringrekar:

Good morning gentlemen. Just a couple of questions on the cost side. As you start deployment in these new markets, we just want to get from you what would be the Capex that you would have to incur as you expand into these markets? Also, in terms of operational employee base in these markets, what would be the cost that you would have to incur? Is there any proportion of the cost that has already been included in your current expenses? And in terms of sourcing content in these local markets, do you expect the cost to be pretty much in line with the trend we have seen in India or it could be higher?

Arvind Rao:

The content cost, just FYI, in many of these markets the content cost is actually going to be borne by the operator. So, for example, on the Vodafone large contract that we have signed, the commercials are such that the content cost will be borne by the local operator and by Vodafone Global, so we do not have to worry about that at all in any of the deployments that we do with them. Also, usually what we do is whenever we launch globally, we first piggyback on the local content partnerships that the operator has. Because they are already live with some service doing something. So, the first thing is to piggyback on top of that, but in general going forward the cost structure that we use overseas is slightly different from the cost structure we use in India. In that, content cost is more dominant in India than it is overseas. So, the content cost as a percentage of revenue will be far lower if not near zero in overseas contracts compared to India.

On Capex and Opex, Rajesh will answer that, but in many cases and this is because of our conservative expense writing off philosophy, all the upfront sales and business development as well as deployment, both these costs get fully written off before you start seeing any revenues at all. So, once the revenue starts, it is only the Opex that is really

relevant because the Capex which is expansion capacity over a period of time is really not a material part of the overall revenues, but Rajesh will answer this.

Rajesh Moorti:

As regards the Capex, we do not see significantly different Capex percentage going forward. Last year, our Capex was roughly around Rs. 60 Crores, which is around 15% of our total revenue and our Capex for the next year could be more or less in that range. It could vary from project to project and we continue to depreciate our Capex over 3 years period.

The deployment cost, as Arvind mentioned, is expensed off even before the revenue kicks in. So, we will continue to have the regular operating expenses related to new projects. So, some of the projects which are going live in the early part of this year, yes the deployment costs have already been absorbed in the previous financials, but it is a running cycle, so you certainly have an ongoing business.

Sameer Naringrekar:

That was helpful. Thank you very much. Thanks Arvind and Rajesh. Good luck.

Operator:

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

Sandeep Shah:

Just in relation to the Vodafone, this deal is actually restricted to the emerging markets or in your opening remarks you said that the products would be deployed globally, because in the press release it has been written as the emerging market operating companies?

Arvind Rao:

Yes, the focus is clearly on emerging markets because that is where we see the opportunity. Although, the way the contract is written, the agreement is done, and our discussions are in place, it is not restricted to the emerging markets countries.

Sandeep Shah:

Okay. Is it like the RBT as well as the Voice Portal may not be a used because in the developed countries like US and the Europe, the voice is not the preferred channel in terms of VAS. So, such products are likely to have a higher focus in the emerging market?

Arvind Rao:

Well, that is what all the skeptics believe and that is what we are out to disprove. In a way, it is good for us, because if people disbelieve in this technology and the service, (a) is we can negotiate good commercials with them, though it is a matter of time and a lot of head banging, but once we convince them, they don't believe in it, so they give us good commercials and we can actually launch and prove ourselves.

In the next year, going forward i.e. 2009-10, one of the plans we have is we want to deploy these products in at least one or two developed countries and show the results. And we believe that we can deliver the results for a couple of reasons. One is our platform has certain advanced features which we believe will make it successful where others have failed, that is one. The second thing is whenever we deploy a product, whether it is in Europe or any of these what I would call as difficult markets, we send the team of our experienced experts, two to three people per country, so that they can actually guide the local operator in what to do, how to do it, how to track results on a daily basis, how to take corrective action in realtime if something is working or not working. So, more or less we try to de-risk anything that could prevent us from delivering the results. So, as a result of that we are fairly optimistic that if given a chance we could actually deliver the goods and so you know next year will be a great test for that.

Sandeep Shah:

Okay. Does the agreement mention about any exclusivity clause once you pitch in any of the circles of the Vodafone in the emerging markets?

Arvind Rao:

There is some exclusivity mentioned in there. Yes.

Sandeep Shah:

Okay. Just on the expenses, this time, earlier we were mentioning that the expenses are likely to be uniform on a quarter-on-quarter basis, but this time the administration expenditure has been down on a year-on-year basis also. So, this run rate is likely to be maintained or there are some one time benefits which we have achieved in the other administrative expenses?

Rajesh Moorti:

If you look at the administrative expenses over four quarters, there is very little to really figure out in terms of down or upward trends. They are relatively fixed. I wouldn't really read too much in to small lower expenditures in Q4.

Sandeep Shah:

Okay. And the last thing, in terms of the TRAI, can you share the percentage revenue coming out of press star to copy within the RBT?

Arvind Rao:

Actually, it is difficult to tell. It is definitely, I would say some significant part, but you have to remember one thing that our RBT revenues are combination of multiple line items. We get a cut of the subscription fees, we get some on the content, we get some on the access. So, it is multiple; so it is de-risked to some extent. So, we do not track a number but it is in terms of just sheer number of people who are pressing press-star, is that material, yes it is material.

Sandeep Shah:

Okay. Thanks a lot.

Operator:

Thank you sir. Next in line, we have a question from Mr. Umesh Gupta from Dalal & Broacha.

Umesh Gupta:

Good morning everyone. I have just two to three questions. One is on your market share and the market size, if you could tell us the changes with respect to both on a YOY and on a QOQ basis?

The second question in terms of, just want to understand what are the entry barriers in your business. I mean, the business model looks good and the market size also seems to be quite big and you were saying that this could be bigger than the internet. So, what typically are the entry barriers in your business and how do you ensure to protect them?

Arvind Rao:

Let me respond to that. First of all, market share is something that is meaningful only after you have been in the market for a certain period of time or even with the customer because telcos are extremely large. What we have seen in that is, if I take India which is the market where we are most mature and we have been live for the longest period of time, it is actually heartening to see that over the last four or five years our market share and therefore number of services that we have been able to provide to customers like Vodafone, Airtel, Reliance, Tata, Idea, have actually gone up. So, over a period of time we are actually significantly live with many of these. In certain cases, we are even higher than north of 50%. So, we don't release the market share numbers by individual customers because I believe that is confidential both for the customer and for us. But the thing that you should take solace is in that the market share has been increasing in almost

every customer that we have been live with since 2001-2002, every customer that we have gone live with, our market share I would say, it has been stable or increasing. So, that is on the market share side. On the entry barrier side . .

Umesh Gupta:

Before that, if you could explain on the market size also, I mean how has that been increasing?

Arvind Rao:

The market size in India, I mean over the last few years, if I take last two-three years for value-added service, it has been growing at about north of 50% to 60% year-on-year. Is that what you are referring to?

Umesh Gupta:

Absolutely. Your target market size?

Arvind Rao:

I mean, for example, let me put it in perspective. If you take listed companies, like Reliance, Idea, Bharthi, you can see whatever they say is value-added services. So, let us say it is roughly 10% of the revenues value-added services. If you take person to person SMS which is today roughly about 45%, you take that out, because we are not in that market. And that includes person to person SMS, roaming charges, wireless internet charges, those are markets that we are not in. So, let us say all that comes to around 45% to 50%. So the balance 50% of the 10%, so in other words, 5% of the top line as of today, that is the addressable market that we play in. Now, if you want to calculate market share you have to remember one thing is that you have to look at our revenues and then you have to make some estimate of what is the average revenue share and therefore what is the real revenue that we are influencing today, and back calculate it.

Umesh Gupta:

Fair enough.

Arvind Rao:

Now, your second question was entry barriers, right? This is actually a very interesting question because in telecom and initially in this value-added services sort of a software telecom play, if you might call it, the biggest entry barrier really is scale. So, the companies that are large actually end up getting larger, and larger, and larger. So, that is the nature of the telecom business. If you look at almost anything, whether it is the Ericsson, the Huawei, or in billing systems, Kenan, or if you look in even in handsets, Nokia, Motorola, the fundamental nature of the telecom business is that no matter of what

product or sector you look at, it is a scale-driven business. Because there are huge scale economies. So, after a certain point, there is a separation between what I would call as the big boys and the small boys. The big gets bigger and the small gets smaller, that is sort of a default consolidation that happens in every sector of the telecom industry over a period of time and you are going to see that happen in the value-added services space as well. In fact, in India I would pause it, this consolidation has already started happening in the last year and year and a half. I am happy to say that we are at the forefront of the consolidation and we are on the larger side and the leader on the larger side. So, it has worked out to the positive for us. So, scale is clearly the largest entry barrier.

The second one is continuous product innovation. I mean, so long as we can keep generating new products every year, we generate huge new revenues and give a market differentiation to operators. They are going to continue doing more and more business with us and they are going to shift more and more market share towards us. And if we stop on that pipeline of innovation, clearly that is going to affect our business. So, on the one hand, the way we think about our business is we have a products team that is clearly focused on new product development, new feature enhancement and product life cycle management, and then we have another part of the company that is focused on just global roll outs and maximizing the revenues from our existing products. So, those are two completely distinct ways in which we hope to monetize our potential.

Umesh Gupta:

To understand it differently, I mean how much of your business is hardware driven and how much is software driven? I mean is there any entry barrier with respect to your technology which you use, I mean in terms of hardware or the software?

Arvind Rao:

Okay, let me answer that. In the business that we are in, hardware is a commodity. But there have been cases where we have given the operator a list of hardware saying here is the hardware that we are going to deploy. If you want to buy it, because you think you can buy it cheaper than we can, be my guest, go ahead and do it. So, hardware is a commodity. All we have to do in hardware is manage the hardware as a percentage of revenue and make sure that either flat or going down over a period of time, but it is a commodity. We use off the shelf hardware and we do not mop up hardware when we price. The hallmark of OnMobile is entirely in software innovation and the managed services business model that we bring along with it when we deliver it in a customer, that's it. So, that is very difficult to replicate, we patent it, wherever we can, we have protected our software, and that is where we innovate and that is our biggest entry barriers.

A couple of other points I wanted to make on the entry barrier. What we have seen worldwide is that VAS companies around the world are actually today quite fragmented and many of them do not have the capital strength, the financial capabilities that companies like we have. So, through both M&A and in organic growth, we are hoping

that we can use the capital strength and the capital power that we have in difficult times like this, where valuations are depressed, companies are weak; this is the time we are going to go after and pick the right companies, buy them out and get access to either great new products or to interesting territories, whether it is Latin America, Japan, China, or Eastern Europe.

Umesh Gupta:

Okay. One more thing in this. I mean, as you know that some of your competitors or the companies are held by your clients, in terms of Bharthi has a company which is your competitor and is driven by them. In such a scenario and I mean you know your revenues are very much dependent on your client and clients are in a position to squeeze you to some extent in terms of your revenue sharing or some other stuff. I just want to understand some of the dynamics of the business and since you are in a business where your competitors are owned by your clients.

Arvind Rao:

First of all let me tell you that, amongst the competitors that we see as competitors, the percentage of competitors who are owned by customers is very, very small. I mean Bharthi's case is what I would call as singularities is not really the norm. Even if I was to use just India as an example, now Vodafone India does not have in-house competitor, Reliance does not have in-house competitor, Tata does not have, Idea does not have; you know, these people do not have it and I will tell you why. The scale economies do not justify it. It is theoretically impossible for any operator possibly with the exception of Vodafone if they did it globally to justify from a ROI and a business standpoint, pure cost standpoint, justify creating an in-house entity that will develop the VAS software and products that OnMobile has. It does not make sense, that's one.

The second thing is even if you do it from a cost standpoint, for whatever reason, there is no way they can compete with the software innovation and the market knowledge and the breadth that somebody like us can bring to the table, that is the second point.

The third point is when you are in a fixed cost scale economy driven business, you have to amortize and spend your cost as much as possible. So, even if let us say operator X had an in-house company, to have to justify those costs by selling the products to other companies or other of your customers and particularly in the same markets, no competitor of yours will buy your product from an in-house company. I cannot imagine a Reliance or a Vodafone buying huge number of products from an Airtel in-house entity, it is not going to happen. So, it is a kiss of death.

Umesh Gupta:

That comes to my last question. As your clients are fairly large when compared to your revenue or the top line, so in that situation, I mean how are they positioned in terms of you know squeezing may not be the right word, but in terms of dominating you and since

you have a healthy operating margin, so to what extent they look into your cost structure and they work out their revenue sharing?

Arvind Rao:

So, the first thing you should feel happy about is that over a period of time the ratio of a customer's revenue to OnMobile revenues is actually decreasing. That is a combination not because of customers are not growing but because we are growing pretty fast. So, in terms of their ability to squeeze us just because we are small, that is no longer the case. That's one.

The second thing is that, the way we justify to customers, because yes they see our margins, they see our results, and we have debated this internally before going public that customers are going to see our margins and we said we do not want to feel shy about it because after all, it is like Microsoft. Microsoft has got great margins. Does that mean that they should not be a publicly listed company? No. Or Google for that matter. And believe me Microsoft also has very large enterprise customers, very very large enterprise customers who buy their products and could squeeze them on prices, in fact that goes for any vertically integrated industry. Now, my question is like this, if we can innovate and show people that one of the clear by-products or results of having these margins is that we reinvest, this is what the theme that I keep bringing out to all the investors is that, the amount of reinvestment that we are doing in terms of new products, new services, new geographies is huge, and this is the reason why we have been able to grow the top line for our customers. So, for example, we can clearly tell, let us say in Idea or Tata in India that it is because we are investing so much in products over the last two or three years that we have been able to give you certain products which have driven your top line to such a large extent. So, they understand that. They understand the reason why we are making all these margins is to reinvest. For example, if we were not reinvesting and if we were not continuously generating new products, then would it be an issue with customers, probably yes.

Umesh Gupta:

Okay. Thank you gentlemen, and all the best.

Operator:

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

Srinivas Rao:

Hi! Thank you very much for taking the questions. I just wanted to understand how this AdRBT has progressed now that you have scaled it up to a full scale commercial launch? If you could throw some light on the metrics which you encountered during your let us say the beta test at that time?

Arvind Rao:

I think the beta test results we cannot disclose it because it is customer confidential at this time, since we are live with only one customer but suffice to say that the most important thing that came out of it was that the brand recall for advertisers was significantly higher than any other digital advertising medium including internet and radio. So, that was the biggest finding that I can just tell you which we sort of suspected but it has proven out with formal market research, that is one.

The second thing is you have to understand that this program in terms of deployment requires as much Capex etc., investment effort, as our core RBT product. So, you can imagine that we are trying to do in one year we are trying to roll out Capex and equipment all over the country to get this product launched. So, you will have to wait until sort of August-September timeframe before we get some sort of early results, and you will see this in the market place when we launch it.

Srinivas Rao:

Secondly, thanks Arvind. Just related questions. Could you throw, or is it now possible to throw light on the business model as in when the customers get some kind of a rebate against subscribing to service, and what would be your Capex guidance from the next year, or may be next two years if you want to take that timeframe?

Arvind Rao:

In terms of Capex guidance, I don't think, and Rajesh correct me if I am wrong, but I don't think there will be a material change from the Capex as it is right now. It is a business as usual because for us whether we launch AdRBT or whether we launch RBT in a customer, the Capex attributes are roughly the same. It is business as usual. It is not adding anything substantially different. The difference is largely in the software not so much in the hardware that is being deployed.

Srinivas Rao:

Fair enough, absolutely. In terms of the business model, I mean what is Vodafone likely to follow in terms of the pricing, not the actual pricing, but is it likely going to be some kind of a rebate against subscribing the service from the customer's perspective?

Arvind Rao:

See, it is like this. First of all you have to give the subscriber some gratification to allow them to play ads instead of their tring-tring. Let us say I am a Vodafone customer, Vodafone has to offer me something, whether it is free RBT for my family members or 23 SMSs a month, or some other gratification such that I say yes, in return for that I would allow you to put ads on my tring-tring. So, that is the cost that the operator will

absorb and the operator will cover that out of their revenue share. That does not affect us. From the balance money that is collected from advertisers, clearly off the top comes some selling commission that is paid to the selling commission entity, that is typically in the range of 10% to 15% at best, and then the balance is filled between the operator and us, okay. And we have tried to maintain the same revenue share, so we are actually neutral and there can be no sort of cannibalization for either us or the operator. So, we are indifferent as to whether a new user comes in on AdRBT or RBT, there should be no penalty or benefit for either party. So, we don't care which way we get a subscriber, the new subscriber comes in RBT great, comes in AdRBT, that is great too. So, ARPU per customer over time, we are trying to get it to balance out, it is roughly the same.

Srinivas Rao:

Fair enough. Thanks Arvind, thanks a lot.

Operator:

Thank you sir. Next in line, we have a question from Ms. Deepti Chauhan from Asit C. Mehta. Please go ahead.

Deepti Chauhan:

Thank you sir for taking these questions. I just have two questions; one is we have been highlighting in the previous conference calls that our market shares for OnMobile is somewhere close to 25% to 30% of the addressable market. Can we expect this market share to improve in the next few years?

And the second question is, if you can just provide some guidance with respect to your content cost and the employee cost, as they have been increasing year on year as a percentage to your sales. Shall the same trend continue or do we expect them to stabilize there?

Arvind Rao:

First of all, on the market share, I don't want to comment on it because these are estimates that the street has made, the analysts have made based on their estimates. Market share is not a formal parameter that we want to give out, but I don't think it is right fundamentally from a stand point. That being said, I think as I have said on this call, I can tell you that we have held and grown market share in every customer that we have been live with since 2001. Now clearly there are limits to market share, because if I am an operator, I don't want any single company to have 80% - 90% market share, or let them get that far. So, I don't want to be too dependent on one company, but on the other hand, getting to 60% - 70% is doable, foreseeable, and is quite manageable, and quite synergistic. So, we are quite happy about where we are and where we see ourselves going in terms of market share, that's one.

Second thing is on your thing about content cost and employee cost, on the content cost as Rajesh said we have clearly noticed that due to certain things that have happened over the last couple of years, those costs have tended to shoot sort of out of line a bit. So, we have got a formal process in place that we are going to put in to sort of manage it and contain it and we will have that in place in this year. So, I do not expect that getting any worse from what it is today.

From the employee cost side, there are two forces at play over here; one is scale economies by which employee cost as a percentage of revenue should actually come down year-on-year. Sanjay Uppal, who is our President and COO, while being charged with sort of making sure that that either happens or at least he holds his ground. But the other problem which we have is that we see what I would call as unlimited growth opportunities. That is really what prevents us from allowing employee costs to sort of significantly decrease year-on-year. Tomorrow if I see a great opportunity in the large market of Brazil or the US or China or Japan, I am going to put a team together and we are going to go and chase it. I mean it will be a crime not to chase it. So, we are going to do it in the short run. So, we will manage employee cost, we will make sure they do not get out of line and our margins stay within some band. On the other hand, we are going to chase every opportunity we see. It is a shame not to do so.

Deepti Chauhan:

One last question, if you could provide any other status on your Phone Back-Up, the product which we have launched which is also in the initial stages, what has the development been there?

Arvind Rao:

Yes, on Phone Back-Up the customization for the large Indian market still continues. Because in the Indian market, the types of handsets that are used are substantially different from the handsets that are being used in Europe. So, we have signed agreements with various operators, we have signed Airtel, BSNL, Idea, Vodafone, almost everyone in India has been signed for handsets for back-up. So, we are working with each one to roll out and customize more and more handsets to a point where they will go live. Mouli, I don't know whether you want to respond, I think, in about a quarter or two, we should be able to release results.

Deepti Chauhan:

Okay. Thanks a lot, sir.

Rajesh Moorti:

We will take two more questions at this time.

Operator:

Certainly sir. Next in line we have a question from Mr. Viren from Religare Mutual Funds. Please go ahead.

Viren:

Good morning guys. My questions have been answered. Thank you.

Operator:

Thank you sir. Next in line, we have a question from Mr. Shailesh Kumar from Fortune Equity. Please go ahead.

Shailesh Kumar:

Good morning sir. I had a question regarding possibilities of mCommerce in the short term. In recent result announcement, Bharthi has been stressing on importance of mCommerce. So, how do you see it unfolding out in the near term?

Mouli Raman:

In mCommerce it is going to be a long-term play because there are a lot of things still to come together, eco system should be created, we need operators, banks, regulators, and so on basically. So, in the short-term we will not see much action. Even now there are a few mCommerce services where the uptake is very minimal. So, I think it will take a couple of years before we see any meaningful uptake of mCommerce in India.

Shailesh Kumar:

My second question is regarding current market situation. As the whole world is passing through this economic turmoil, how do you see Indian market vis-à-vis European market in terms of penetration and possible growth of MVAS from the next 12-18 months perspective?

Arvind Rao:

We see the Indian market, the growth rate may be a little lower than what it would have been without the growth turmoil, because clearly consumers may be having second thoughts to some extent about discretionary spending. In that respect, what we have found which is really good for us is that because in our case value-added services, consumers are spending in small bites, you know one rupee here, five rupees here, three rupees there; it is not like deciding whether to buy a new refrigerator, a scooter, or a car, and deferring that lumpy purchase decision. So, to that extent, we are more insulated from this global turmoil that is happening in the global world.

Shailesh Kumar:

And what is your view on the European market for the same because you are trying to penetrate those markets as well?

Arvind Rao:

In terms of European market, again I come back to the same thing. I don't believe that at a microeconomic level, which means the consumer spending, I don't think that there would be much of a hiccup in VAS. The issue is not the macroeconomic outlook in Europe, the issue is how VAS has been implemented by the operators which we believe is wrong. We actually see it as a great opportunity because everybody is in a downturn, everybody is cost conscious. We have had operators all over the world, many of them calling us saying can we come and can we outsource our entire VAS to you because our cost structure is so high of doing that, that we would rather just give the whole thing to you. So, as I said, the word for us is unlimited growth opportunities.

Shailesh Kumar:

Fine, thank you sir.

Operator:

Thank you sir. Sir, we have a final followup question. Would you like to take it?

Arvind Rao:

Yes, let us take one more question and then close it off.

Operator:

Certainly sir. Our final question comes from Mr. Sandeep Shah from ICICI Securities. Please go ahead sir.

Sandeep Shah:

Just on the AdRBT, just to clarify. You said that the free RBT or the SMS, the cost would be borne by the operators. So, for example, on the free RBT, does that mean that you will continue to get your revenue share on that?

Arvind Rao:

We will continue, again it is a partial fee, it is like saying that you get free RBT only for three family members of yours or something like that. We will get revenue share to the extent that there is subscription for other people because, again I come back to this thing. The subscription is on a monthly basis. So, whether it is for three people, five people, or

six people, the fee is the same. So, on that we will get a cut, if the operator does not make money, we will not get a revenue share. If you have fixed cost equipment, the marginal cost of deploying that free RBT for three people is really negligible for us. We are not really giving up anything.

Sandeep Shah:

And just on the Vodafone deal, the revenue share would be higher than what we have in the Indian markets?

Arvind Rao:

I cannot comment on that. It is confidential, but let me just tell you that it will be accretive.

Sandeep Shah:

Okay. Thanks a lot.

Arvind Rao:

Okay, all right. Thank you very much everyone and if anyone has further questions, we will be happy to deal with it off line. You all know who to call, Praveen and Rajesh in Bangalore or by email, okay. Thank you very much.

Operator:

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