



Tower # 1 94/1 C & 94/2,
Symbiosis - CGI Road,
Electronic City Phase-1,
Bangalore - 560100, India

P: +91 80 4009 6000
www.onmobile.com

Q2 FY2019 Investor's Conference Call October 30, 2018

SPEAKERS:

Mr. François-Charles, Chairman and CEO;
Mr. Ignacio Martin Velasco; President and Chief Operating Officer (Europe, North America & Latin America);
Mr. Sanjay Bhambri, President and Chief Operating Officer, India, Asia, Middle East and Africa;
Mr. Ganesh Murthy, Chief Financial Officer.

Moderator:

Good afternoon ladies and gentlemen. I'm Harpreet Kapur the moderator of this call. Thank you for standing by and welcome to the OnMobile Q2 FY2019 Investor's Conference Call. For the duration of the presentation, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are F. C., Chairman and CEO; Sanjay Bhambri, President East Region; Ignacio Martin Velasco, President West Region; and Ganesh Murthy, CFO from the management team.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earning's presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future and likely events or circumstances. Please be advised that this conference is being recorded today. I would like to now hand over the conference to F. C. Thank you and over to you, sir.

François-Charles:

Thank you. Thanks everybody for joining this call. It's been a busy quarter. The first point I want to raise up is the acquisition of the Appland. We are very happy that we acquired Appland. It gives us a very good footprint with the deployments of Games Clubs. Appland is a company based in Guttenberg, Sweden and they have the world's leading platform in games and kids app. So, that's the first item this quarter that's important. The second one is that we managed to close the contract with bKash, a Mobile Payment Wallet operator in Bangladesh and I think it's a very good first step to be able to start working with non-operator wallet. So, that was done with the team launching in Bangladesh soon. And the third element that we worked on is the digital contest. We now have our first phase of our digital contest platform ready and we already started selling globally this platform. So, we'll see traction in the coming quarters. So, those are the three main points at this quarter. I'm now going to pass to Ganesh to go into the financials.

Ganesh Murthy:

Thank you, F. C. Moving to the financials, there was a marginal decline of 2% on revenues quarter on quarter and we ended Q2 with revenue of Rs. 147 crores. The good news there is that our focus areas witnessed quarter on quarter growth - the games segment witnessed at 10% quarter on quarter growth and now accounts for 11% of our total revenue. The video and editorials area grew by 2% quarter on quarter and is now the largest product segment in the company accounting for 41% of our total revenues. Decline is mainly in the domestic Tones business, which is

predictable given the current market climate and challenging conditions in the India telecom sector.

We have done exceptionally well at all levels of profit margin in this quarter. On the profit front, we have been able to sustain EBITDA margin at 7% despite revenue decline through our rationalized expenditure and judicious management of opex spend. Operating profit grew more than four times in Q2FY19 that is we ended the quarter with 43 million rupees as compare to 8 million in the last quarter, Profit after tax also recorded a significant increase at 192 million as against 3 million in the previous quarter. Our employee count further declined to 829 at the end of Quarter 2 from 857 in the last quarter due to rationalization of the resources and various automation initiatives undertaken by the company. The quarterly reduction in headcount has started yielding results from the cost front, as you can see a 10% decline in our manpower cost. There is a one-time separation cost shown in the P&L of 28 million rupees and this arises from the closure of our R&D Paris unit and will result in targeted cost reduction in the coming quarters. Our opex remains at an optimal level and marketing remains our major area of spend which will boost our revenues.

Another area that we have done well is in the area of liquidity management. In the current quarter we generated cash of 278 million from operations and our cash hit an all-time high of 349 crores rupees. This is despite a collection of about 48 crores from a major customer which came in on 1st of October. If we include that, one that came in on 1st of October, our DSO would have been 121 days, which is one of the lowest DSOs that we have achieved in the last few quarters.

I would like to summarize here by saying that despite the tones revenue experiencing a decline in this quarter the company is well positioned on its path in implementing its strategic priorities. Focus in the coming quarters would be to complete the integration of Appland, start generating revenue from the new deals that have been signed and continue to grow in the key areas of games and video and editorials. With this, I would like pass it on to the Moderator and open the call for questions.

Moderator:

Thank you very much, sir. With this, we will open the floor for Q&A interactive session. So, participants, if you wish to ask a question, you may please press "0", and then "1" on your telephone keypad and wait for your name to be announced.

So, the first question of the day we have from Lalit Dua from Rajasthan Globals. Your line is unmuted. Please go ahead.

Lalit: Hi. I am Lalit from Rajasthan Global. As you were rightly saying that the company has the highest cash in its books. Don't you think it is a severe dichotomy that with the highest cash in its books the company's market capitalization is at lifetime low?

Ganesh Murthy: I can't comment on the market capitalization but all I can say is that we have had a healthy cash accrual this quarter and we are using the cash judiciously - we used a part of the cash in October for the acquisition of Appland which will help grow our revenue in the future.

Lalit: No, I don't think gentleman, the cash is being judiciously used at the market capitalization, I think it is equivalent to the cash. The company must do the first thing is to buy back its own shares. It is not only to improve EPS, it will also correct the reputation that the company has in the stock market because either it is one of the two; that the market does not trust the results of the company or I have not come across even a single company in my ten-year experience whereby the company's market capitalization is equivalent to the cash. The company made an IP at 480 rupees and even after discounting one is to one bonus, the effective acquisition cost price of the shareholder is 240, the market price is 32, the company has got the lifetime highest cash. The company has got the lowest market capitalization. The promoters can effectively increase the stakes indirectly by not participating in the buy-back. Buy-back is not a word which is alien to the company. The company has done it twice. The last time you did a buy-back it was an effective average price of 114 rupees per share. Now, the stock has come down to 34 rupees, the performance is improving. So, I failed to understand what has gone wrong whereby the management which was so bullish whereby they did buy-back 114 and now as you rightly said, the cash is lifetime high. So, why you're not deliberating on a buy-back seriously?

François-Charles: I am not going to discuss the buy-back as you know that's an item that we keep to ourselves but you know, just on your comment on market capitalization and you're 100% right. You know, the company today is worth 0 if we put aside the cash. I mean, from my point of view, why do the investors by now you know, should buy the stock where the stock should be worth way more than this? Actually, I say very often, this company with the global sale that we are should be trading at at least one time revenues or seven, eight times EBITDA either way the stock would be way higher than it is today. So, I mean, I can't correct that... I'm not supposed to, to start... my job is to make sure we do the best job possible operating

the company and not speculating on the stock. Investors should buy the stock.

Lalit:

Sir, I beg to differ your job is to do a lot of things including the management of the surplus cash. Your job is not only to manage the company. And there is an English quote which says that, "Charity begins at home." If you want the stockholders to buy the company's stock whereby the cash is equivalent to the market capitalization I think the company has surplus cash on the balance sheet and please trust me, when you will start, people will also start doing it. So, charity always begins at home. If you genuinely believe... the company believes that the company shares are undervalued, trust me tomorrow morning start doing a Buy-Back; and you have done in the past, and you have done it a price which is much higher than the current stock market price then only you will get the desired valuations. Point Number 2, this is my last advice to the management before I log out, please do not say that our job is only to manage the company. You have an effective role and that effective role also includes how to manage the surplus cash because when you manage the surplus cash; when you do a Buy-Back, what happens I'll tell you. It results an optimal structure of the balance sheet, it results in the increase of equity. It results in the increase of return on capital employed, it results in increase of networth, it also results that those people who want to sell their shares get effective liquidity and exit. It also results in the fact that the Buy-back becomes EPS accretive and those shareholders wish to remain with the company, they have wealth creation along with the promoters and every shareholder where the promoters do not participate, who participate in the Buy-Back. Not only the promoters taking credit the effective cash per share for the every stakeholders who continue to remain with the company increases. So, it's a win-win for all. Those shareholders want to go out, they go. Those shareholders who wish to remain with the company, they get more cash per share, they get more resources available and the EPS also increases.

Ganesh Murthy:

Okay. We take your points into consideration, thank you.

Lalit:

You must.

François-Charles:

Thank you.

Ganesh Murthy:

Moderator, the next question, please.

Moderator:

Next we have Lalaram from Vibrant Securities. Your line is unmuted.

- Lalaram:** Hello. Thanks for the opportunity. My question is on the depreciation part. So, we have seen over the last four - five years, you know, from a depreciation charge of around 50 to 70 crores, today we have come down to run-rate of five crores a quarter. So, firstly I want to understand the reason for such a sharp decrease at the same time going forward how do we think this can move?
- Ganesh Murthy:** Okay. Thanks. I agree with you, in Quarter 1, the depreciation was 10 crores per quarter, now it is about 5.5 crores per quarter. Major reason for that is when we acquired Live in the US about five - six year ago, we had capitalized the intangibles arising from the acquisitions and we were amortizing it over a period of time. That amortization ended in June this year. So, Quarter 2 does not have the impact of the amortization. So, that is the major reason for the shortfall about 3 crores per quarter amortization will not happen since the asset has been fully depreciated.
- Lalaram:** Okay.
- Ganesh Murthy:** And your second question on what is the likelihood of the depreciation? Capex is very minimal in nature, it's not very significant capex that we are incurring. There will be some amount of capex. So, you will see perhaps a slight increase in the depreciation going forward but it won't be very significant.
- Lalaram:** Okay. To just continue with that point, you know, annually we have been generating good amount of cash, I mean, around 50, 60, 70 crores. So, obviously, I think... can you give us some indication of how much of that is going to go back into the business as Capex or you know, either growth or just maintaining the current level of business which is maintenance Capex? Can you give some indication of that?
- Ganesh Murthy:** The current Capex for us is about 3 - 4 million dollars per year.
- Lalaram:** Okay. Got it. So, remaining amount would be sort of free cash flow for us, correct?
- Ganesh Murthy:** Free cash flow but again, I want to bear in mind that we used about 5.5 million dollars in October for the acquisition of Appland.
- Lalaram:** Okay.
- Ganesh Murthy:** And we also made a payment of dividend, something like about 3 million dollars of dividend payment was made in the month of October.

- Lalaram:** Right. Okay. Got it. At the same time I think if I read a past con-call of yours, around three to four years back we had renewed this contract with Telefonica and at that point of time it was said that the contract was such that there was no upfront payment but we had settled for a lower revenue share. So, can you just help us understand about that contract, I mean, what is the current status?
- Ganesh Murthy:** We don't mention customer-wise details because we have an agreement with the customer to maintain confidentiality in respect of our contracts.
- Lalaram:** Okay.
- Ganesh Murthy:** So, that's the status.
- Lalaram:** Okay. No issues. And finally, do you still are continuing with your dividend policy saying it would be either 1.5 rupees per share or 75% of the profits, whichever is higher? Is that still holds true?
- Ganesh Murthy:** Yes.
- Lalaram:** Okay. Thanks.
- Ganesh Murthy:** Thanks a lot.
- Moderator:** Before taking next question, I'll announce again. If you wish to ask a question, you may please press "0" and then "1". We have next N. Puranik from ENAM Securities. Your line is unmuted.
- N. Puranik:** Hi. Tell me something about...
- Ganesh Murthy:** Yeah, go ahead.
- N. Puranik:** Yeah, Ganesh, if you can take us through this Swedish acquisition. I want to understand this in the context of how do you get into the business of capital allocation and because if you look at the history of OnMobile, the inorganic initiatives haven't given any result because you had not been a success at all when it comes to inorganic initiatives. And there is a question is Buy-back. So, when evaluate and assess an opportunity, how do you assess how much cash I should put and whether I should Buy-back or I should go for an acquisition especially in the context of your sustained failure to get organic initiatives going. It doesn't matter, still you can do an inorganic initiative provided it fits into the revenue generation bill. And see, in the context of that, this particular acquisition you have done has to do much more extraordinarily than the previous ones. Because when you do an acquisition like this because cash is a very

important element in the company. That's what is helping you move around. So, if you can give an insight on why you done this acquisition and how quickly it can give you result. You know, if you can take us through that, that will be useful.

Ganesh Murthy:

Yeah, so, Puranik, thanks for this question. And you would have seen that a detailed presentation has been uploaded on the Appland acquisition but just to give you a quick brief on this. See, we have identified games as one our strategic initiatives where we want to grow. Right now, 11% of our revenues comes from games. And we are facing a lot of tailwind, a lot of opportunities are coming in the pipeline for the games offering. And it's across the world, right now our games is limited to only Europe but we have opportunities coming from India, we have opportunities coming from Middle East, Africa. We have opportunities coming from Asia, Latin America and so on, which are in a very advanced stage. So, this sets us that it was very important for us a very robust games platform and a games product where we can go to the operator and tell them about our value proposition. We identified various companies in the games business, we focused upon Appland because we believe that Appland has certain propositions which are unique propositions. For instance, they have full-fledged parental control on the games platform, they have more than 500 games including kids games that they have. And they are present in something like 40 countries around the world, they work with 80 operators. So, we believe that this acquisition of Appland will help us to go to the telecom operators across the world where there are deals that are to be won and it enables us in a much better superior position. Now, what we have also done is the people in Appland, this is a small company, consisting of only about 12-15 employees all based out of Sweden. And we have Jonatan Redwig, the CEO and Co-founder of Appland has taken over as our vice-president of our games business unit. And he will be instrumental in driving the games revenue across the world. So, we have already commenced the integration of Appland into the company. We believe that we can move fast and drive the revenue significantly especially as we have a talented person like Jonatan coming into the leadership team.

N. Puranik:

And what's the current revenue?

Ganesh Murthy:

The current revenue this year is about 2 and-a-half million dollars.

N. Puranik:

And how old is this company?

Ganesh Murthy:

This company was founded in 2011.

N. Puranik:

2011. It's about seven years now.

- Ganesh Murthy:** They started the games business only about two years ago. They were into other app development at their earlier stages.
- N. Puranik:** What were they doing before this, 2011?
- Ganesh Murthy:** This company was founded in 2011.
- N. Puranik:** No, before this last two years you said they started...
- Ganesh Murthy:** They were doing... they were focused on app development.
- N. Puranik:** App development.
- Ganesh Murthy:** Yeah.
- N. Puranik:** And that didn't go anywhere?
- Ganesh Murthy:** No, they refocused... they identified games as an opportunity and they refocused on that.
- N. Puranik:** Refocused on that. So, but tell me if they have operated in 40 countries and 80 operators, how would we expect them to grow now?
- Ganesh Murthy:** So, they are growing. They are growing every month. They are growing every month by something like about 8% every month.
- N. Puranik:** Um-hum.
- Ganesh Murthy:** Okay. So, there is the significant growth. There is actually two synergies involved. Because one side Appland is growing, they are growing on their own. On other side, we believe we have a lot of games deals in the pipeline. And we believe that with the Appland product behind us, we have a much better picture and much faster implementation of the games products with our customers. So, it's actually both sides that are growing. Both on OnMobile side as well as Appland side.
- N. Puranik:** How big are their anchor reference able customers out of this 80? A couple of them if you can. Are they significant?
- Ganesh Murthy:** I can't include the names.
- N. Puranik:** No, I'm talking about the potential. How well these guys can grow and how deep is their relationship, you know, what they like about

that? and their readiness to launch worldwide. You know, the opportunity comes from few big anchor operators.

François-Charles:

I mean, they're working with Jio. So, clearly you know, when we have got that feedback on that front, it was good enough for Jio for Swedish company selling in India. Now, just keep in mind and look at that the amount spent on OnMobile and the fact that's been agreed by acquisition but, you know, OnMobile in the past has done acquisition on the side and didn't really bring it to the core. In this case, gaming is really going to be, you know, like a product line for us. We have a lot of traction in the world with gaming and we use Appland to close some current customers. And clearly they did deliver the job. So, as Ganesh was saying is that the double game here because they help us deliver current subscription club that we are launching with customers. And the fact that they have today 80 operators in the world using the Appland subscription club is a huge opportunity for us to be able to work with them and increase the revenue for games club. So, you know, if you look at the maturity of their game club, they are very early in the process. So, there's a huge opportunity to grow the revenues on each of them. And start investing marketing dollars both with our partners that did sell to operators or directly with the operators. So, I really believe we can do something producing significant gaming in the two coming years, sir.

N. Puranik:

How significant is the gaming to the key operators you worked with? So, is it the next big thing they're saying the gaming will be because it's important for them to see a big opportunity in gaming to significantly focus in this aspect of the business.

François-Charles:

I'll let Ignacio and Sanjay answer that since they are in the field with the operators.

Ignacio Martin

Hi. This is Ignacio Martin. I will speak for the Western market. Actually, we are already, you know, making some millions on gaming in some countries in Europe. We see a lot of traction in the new way of showing the game, which is in a limited way. So, we offered the customers to have all you can eat games, which has more subscriptions. And the pipeline looks really good. We have lot of opportunities, we believe that operators are quite interested on these and we are pushing it everywhere. So, we will update in of the new deals but actually we are quite satisfied with the impression these services causing to our customers.

Sanjay Bhambr:

Hi, good afternoon. Sanjay this side. Same is the case with the East Region, If you look at it basically operators are looking at stickiness on their network and beyond the music and the content, games are

in the key area of focus. Just to give an idea since we with Appland, we have hopefully in the next quarters you will hear from us as the new customer acquisition that we're going to do. Just to give an idea from India's point of view. Jio itself is in a quite strategic relationship with Appland and Appland helping them for the complete solution for them. So, you can understand as to how strategic it is for some of the operators, and most operators across the world if you put it that way.

N. Puranik:

Sanjay, can you tell me how big is this gaming revenue for Jio out of their total the last sold revenues? Because what I'm trying to understand is if it is a big opportunity, the operators are definitely going to put a big focus. So, is it in terms of the trend change from the user perspective, you know, this year big trend change. They are going on to big sales and marketing dollar and they will make it a success. Then you'll benefit out of that and you have a platform, you combine with existing business then it makes meaningful economic sense.

Sanjay Bhambri:

So, it will be difficult to give a specific number for an account, which we normally don't do. But I'm trying to explain to you is that for example I'm continuing with the Jio example. If Jio is commissions an organization to do a customized solution across its platform which means they're quite focused on it and typically it's not just going to be one kind of a mobile phone, it'll be multiple mobiles phones, multiple landlines and future as they announced you will know... I am not in the liberty of announcing but it's a platform across channels which you can understand if they're doing that, they do not want to do that and just sit on this. So, just to give an example of Jio.

N. Puranik:

Um-hum. So, can you tell me the profile of users? What kind of users get into this? What age category and what income category, what social background they come from and how big are they in terms of out of 250 million Jio users, do you see about 25 million, 10 million to 50 million currently and potentially using this?

Sanjay Bhambri:

So, on the Jio as I said the service is under deployment. So, obviously we don't have the demographics yet but maybe Ignacio, you can just give us something in the Europe obviously without naming the operators.

Ignacio Martin:

Yeah. We just launched this servicing one with important an operator and customer and we saw a huge growth in the first two months, we're almost over 15 K users. We have satisfying degree of engagement and actually the end user is proved to like the service and the operator is really pushing. So, we aim to establish the same

businesses in many places in the world. So, that is our experience as of today, it's quite positive.

N. Puranik:

So, what's the potential you received from this client? So, what is the way forward, the next step? Will they tell you the road to rollout across couple of 100,000; a million, how will that happen?

Ignacio Martin:

Actually, I mean, we're going to get the maximum possible customers everywhere. So, that's what we fight to do at least in the service we launched and that's the aim and what we want also is to enrich these great and limited games so far with additional features, another kind of games just to have a fully-fledged complete themselves everywhere because it's really an important cornerstone of our strategy. So, we'll be announcing again. We have announced the first service two months ago and it's really going well and we'll be announcing in next calls how it is evolved everywhere.

N. Puranik:

And the typical profile of users for this games?

Ignacio Martin:

Well, I actually I just don't want to enter here into really detail use of profiling but we have a percentage of 52% male, 48% female and basically the age goes from 15 to 45, it's the basic user depending on the titles, depending on the quality. We have more people related to casual gaming and more people related to more, I would say, big titles.

N. Puranik:

So, when do you expect the viral effect to pickup in this launch? Do you expect a viral effect or the network effect? When you will get the network effect? If it's a new service, what will guide the millions of people following this is, the network effect? You will see a network effect coming in with the lag of say couple of quarters.

Ignacio Martin:

What I see is that here like in every other business, it's a combination of the networks support as you rightly mentioned and also our marketing capabilities in order to get some viral effect there. As you know, we just launched two months ago the first service, it's going quite well and we are just understanding how viral could it get. But the experience that we have and the experience that Appland, the company we acquired they have is that there is great traction in many places around the globe.

N. Puranik:

And Ganesh, what kind of marketing dollars you'll have to provide for this?

Ganesh Murthy:

We have a budget for marketing dollars. Even after spending the marketing dollars, we will still be EBITDA positive for Appland specifically.

- N. Puranik:** And do you expect the results to come over next to one year, two years, six months, what is the programme?
- Ganesh Murthy:** The programme is, we will integrate the company and consolidate effective from 1st of October. So, they're already started working with us. They are working with us on various OnMobile opportunities. And I think one advantage which Appland has is that because of the acquisition we are able to start the games offering very fast because now they are a part of OnMobile. So, we are expecting traction sometime by like Quarter 4 onwards and we are expecting revenue growth through this acquisition.
- N. Puranik:** And what are the chances that this will succeed better than what you expect or as good as what you expect?
- Ganesh Murthy:** We are committed to make it successful.
- N. Puranik:** Successful, I see.
- Ganesh Murthy:** Yes, absolutely. I mean, some of the things that we have learned from our previous acquisitions is that, we have made a study of the previous acquisitions and what went wrong on and so on.
- N. Puranik:** And most of them were reckless.
- Ganesh Murthy:** And we have taken... sorry?
- N. Puranik:** Most of the previous acquisitions are reckless, they didn't contribute anything statistically or to the revenue or profits. That's why I was asking you in that context.
- Ganesh Murthy:** I can't comment on previous acquisitions, I think the last acquisition was about five, six years ago.
- N. Puranik:** Correct.
- Ganesh Murthy:** So, I don't want to comment on that. But we are taking several steps, we have brought up a detailed integration plan. We have identified various areas in sales and marketing, in new customer acquisition, in pipeline management, in product development and they continue to invest in R&D, in developing the product and enhancing the product. Then we are looking at finance, legal, tax, etc. on various other measures of integration.
- N. Puranik:** And R&D team sits where for this product?

- Ganesh Murthy:** They all sit in Sweden.
- N. Puranik:** Sweden. Is there a plan to move them to Bangalore or it will continue there?
- Ganesh Murthy:** No, we won't move them to Bangalore. We will continue there. We may enhance if there is requirement for enhancement for product development. We have development in centers in the UK, in Madrid and in Bangalore. So, we may start setting up in these areas.
- N. Puranik:** And what's the R&D spent annually?
- Ganesh Murthy:** Okay. I'll come back to you on that.
- N. Puranik:** Okay.
- Ganesh Murthy:** I'll come back to you during this call.
- N. Puranik:** I think you need to have a control in R&D spends, most of these companies, they'll eat into vital spite, putting a lot of money in R&D. And one other thing is in terms of payback, what do you think should be decent payback for this?
- François-Charles:** Just to give you my view on here and just to be really clear. You know, my view is that we're targeting four times EBITDA after earnout. So, we have two years earnout and after two years of earnout we'll look at how much of EBITDA this company generates and the total paid price and we're aiming at four times maximum payout which I think four times EBITDA is a very good deal. So, obviously we're paying forward right now instead of backward but I cling to the earnout. So, I mean, at the end, that's what we will achieve.
- N. Puranik:** This is after taking into account your learning from the past acquisitions?
- François-Charles:** Well, you know, I wasn't personally involved in those..
- N. Puranik:** No, it doesn't matter. The learning is the learning. You have to learn because that's what how the business gets better.
- François-Charles:** So, I did... you know, I've other businesses that I won't name but I did you know, we did in some other companies about 35 acquisitions and I've been involved in there and they work normally. So, you know, in this case I can guarantee you, you know, all the matrix and all the key components from making a successful

acquisition we're taking into account and I'm convinced this is a very good deal.

N. Puranik: Good. Ganesh, when do you think is a break even for this acquisition?

Ganesh Murthy: What do you mean by break even? It is already EBITDA positive.

N. Puranik: Oh, this company is EBITDA positive already? I see.

Ganesh Murthy: Yes, absolutely.

N. Puranik: So, you said the revenue is about 2 million something.

Ganesh Murthy: Two and-a-half million.

N. Puranik: Two and-a-half million. And then their...

Ganesh Murthy: Two-and-a-half million but if you take run-rate, it'll cross 3 million.

N. Puranik: 3 million, I see. And do you...

Ganesh Murthy: And come back on the R&D spent, it's about 350,000 US dollars per year.

N. Puranik: That's good. That's not bad.

Ganesh Murthy: And again, I just want to point out that the entire R&D spent is charged out to the P&L. It's not being capitalized. And after that they still maintained a positive EBITDA.

N. Puranik: And no, when I was saying the breakeven means as a business. So, you were saying that they have already been... the cost rate is much lower than two-and-a-half million.

Ganesh Murthy: Yes.

N. Puranik: And how do you derives synergies, will be doing a lot of cross selling of your product with them?

Ganesh Murthy: Not our product because they're only in the games product.

N. Puranik: Games product, okay.

Ganesh Murthy: Yeah, the games product. So, the idea is to grow in the games and they have a very good content management team. They interact

with more than 20, 30 games studios. And we can leverage on that and offer the best games solutions for our customers.

N. Puranik:

And you said, they have 80 operator clients. So, is there a strategic way to focus on top five, 10 operators and get the most or you want to just go after every operator, what is the way?

Ganesh Murthy:

See, what they are doing is they are currently with 80 operators and they are growing. The number of clubs one month ago it was only 70 operators, they've grown 10 operators in one month. What our focus is not only to acquire operators but also to increase a number of subscribers in each and as Ignacio mentioned, this involves marketing, proper marketing spent to increase the subscriber base. Apart from that we have our own pipeline, OnMobile pipeline, where we are taking this product to our customers. And as you know, most of our customers are currently are having only tones as the product and this is a unique opportunity for us as we have 75 customers apart from Appland.

N. Puranik:

Um-hum.

Ganesh Murthy:

We have 75 customers across the world and this gives us an opportunity to take this games product and to sort of cross-sell games to our existing tones customers.

N. Puranik:

And do you think Jio is sufficiently excited about this?

Ganesh Murthy:

No, we haven't spoken to Jio. I mean, Jonatan has been in touch with them.

N. Puranik:

Okay. You haven't spoken to them, I see.

Ganesh Murthy:

Yes

N. Puranik:

But what is his experience with Jio?

Ganesh Murthy:

It's positive.

N. Puranik:

Positive, I see.

Ganesh Murthy:

Yes

N. Puranik:

So, when will you see a big launch from Jio?

Ganesh Murthy:

I can't comment on customer specific engagements.

- N. Puranik:** No, I'm just trying to understand the viral effect. So, when will that come unless a big operator like Jio comes in and launch, you know. So, because they're most modern and relevant. If they launch this can be great hit, but no comments on this?
- Ganesh Murthy:** No, I have no comments on this.
- N. Puranik:** I can understand.
- Ganesh Murthy:** We don't want to comment on customers specific matters
- N. Puranik:** I'm not talking about Jio only. If maybe last top five or 10 operators whom do you think they are very strategic who can make an impact on the market place.
- Ganesh Murthy:** Yeah, they have launched with marquee customers but again, I would really not like to comment on that.
- N. Puranik:** Good, Ganesh, all the best.
- Ganesh Murthy:** Okay. Thank you.
- N. Puranik:** Take care of cash. Difficult job, take care of cash, take care of P&L and take care of the poor investors. Thank you.
- Moderator:** So, next question we have from...
- Ganesh Murthy:** Okay. Moderator.
- Moderator:** Yes, sir. Next we have Shridhar, individual investor. Your line is unmuted.
- Shridar:** Hi. F.C. Hi Ganesh, how are you?
- Ganesh Murthy:** I'm fine.
- Shridhar:** Here's a couple of questions. One is you talked about the Appland acquisition, this is for F.C. So, he said he is looking at a four to five times EBITDA and effectively that acquisition cost if I am right, it is 15 million dollars. So, effectively you're looking at a 3 million dollar contribution to come from Appland in the next few years? Is that a fair assumption?
- François-Charles:** That's exactly a fair assumption, yes.
- Ganesh Murthy:** Yeah, but I want to point out you know, this 15 million is a combination... it's actually 14.8 and it's a combination of an upfront

payment, cash payment and earnout of 9.3 million dollars which is dependant upon achieving certain financial metrics.

Shridhar: And I guess EBITDA would be one of the critical ones then.

Ganesh Murthy: Basically it's gross profit and other measures.

Shridhar: But a financial matrix, right, I'm assuming that it does...

Ganesh Murthy: Yes, yes.

Shridhar: If they play out and they deliver what they were supposed to deliver and I hear you said about five times EBITDA. So, I'm just thinking in case if everything goes fine with the Appland acquisition you're talking about the 3 million dollar EBITDA contribution coming from that.

Ganesh Murthy: That's right.

Shridhar: Which is okay. And the model or this is this whole gaming bit we don't... see, one thing I just want to point out and this has nothing to do with Ganesh. F.C. you've been moving from Strategy 1 to Strategy 2. I know we missed out on music, now we're trying to do something with gaming. Hopefully gaming will give us some, what they call, visibility, but my question is, is this going to be a B2B model or is it a B2C model which you talked about in the case of music. Is it going to be a B2B model or a B2B2C model?

François-Charles: Honestly, right now everything we do is B2B2C. So, it's the exact same model we've been going and on the sound business you're right. You know, there was a component from B2C because we were planning to migrate the base of the customers... of the operators. Now, in this case, you know, it's clearly the same strategies we've been doing with others, you know, it's a B2B2C. And again, I'm not excluding that we would eventually one day launch a direct consumer offer but that is B2B2C today. So, the strategy on this one for me is very important, distribution is key, you know, getting 80 games club in live operators, it's a task to develop a road map on deploying. We'll have one of the biggest distribution of games right now worldwide. Then , once you got distribution the keys to increase the revenue for games club. So, that's why we'll be spending the marketing dollars and spending the efforts to make sure we go jointly with the operators and our VAS partners in that case making sure that we can you know, get more subscribers. But this will be done jointly with the operators.

- Shridhar:** So, B2B model definitely is not a best thing because your ringtone business is anyway better and that was delivering, you know, after certain time it was delivering a pretty decent numbers for you. So, is B2B model in games works, it works. So, it's not such a bad thing to do. But the only question then I have is now, you know, everything in games it's all about like what is you know, the number of users who go to any of these games and therefore who defines while I understand that you mentioned, you know, all you can see what is what you are trying to do which I'm assuming would mean bundling multiple set of games so that, you know, individual users need not pay for individual games. So, like you know, in Jio, somebody gets in, gets a package of games which to him may come at certain costs and therefore, again they get a ringtone model where you have a certain revenue share, I'm assuming it could be a similar model. Right, is that correct?
- François-Charles:** Yeah, that's correct. You know, the objective is to sell, one price and you get all the games you want to download or use you know but yeah, that's the goal.
- Shridhar:** So, who defines the games? Its ultimately you know, the popularity or the usage of that would depend on the games what is being put out. You know, for example if it is a overnight, I'm assuming you know, a lot of people will immediately jump in, right? So, what or who defines the set of things?
- François-Charles:** I'll let Ignacio answer that.
- Ignacio Martin:** Basically I mean, there are different levels of games in the market. There're high quality branded games, there're lower level games. Actually the offer we have with Appland is that the highest percentage of games has been somewhere in the top ten. Okay. So, we are offering a really high quality offer of games which is going to be an updated quarterly with new titles and there's a lot of negotiations going on just to have the best offer that's available in the market. So, the quality of the games to offer again, 60% of the total portfolio have been in the top 10 is one of our add value here in our limited games offering. And that's really important. I mean, we are looking for quality content. We believe in quality content and that's what is the cornerstone of our games offering.
- Shridhar:** Can you give me any one title which is part of this game which you think is also reasonably popular?
- Ganesh Murthy:** Sorry?

Shridhar: Can you give me one... yeah. Can you give me title... the games title, you know, like the name of the game which is part of the package...

Ignacio Martin: Yeah, Cut the Rope, Hitman. I mean, you have... if you enter into Appland's webpage, you have an information of the quality of games available that they're linked with the top studios in the world and the offer is really being improved upon, you know, day by day. So, you have access there to all the titles that are available.

Shridhar: Wonderful. Thank you so much. I'll look into that. The other question is, I saw in the presentation that, you know, Vodafone deal of 5 million dollar has been done. I guess that's the total value of the deal. And this is going to be executed during what kind of a period?

Ganesh Murthy: So, that's the TCV of the deal.

Shridhar: Correct. So, that's the total value of the deal, right, I'm assuming?

Ganesh Murthy: That's right. Over the deal period.

Shridhar: And what would be the deal period just to get some understanding about that?

Ignacio Martin: We have closed with one really important operator in Spain to launch a branded kids offer, okay? That kids offer contains high quality content for kids with strong and innovative parental control. We are going to be covering all areas in terms of video, editorial and also gaming. We are so happy because that was a RFP and that will be deployed during the next weeks. That's the offer you are referring to.

Shridhar: So, my question is that Vodafone deal which you are talking about, now, that Vodafone deal, what is the timeframe by which it has to be executed? I'm assuming this is a deal for a particular period of time, right? I'm assuming it could be a year or two years or three years, I don't know. What would the total time period for which this 5 million dollar will come?

Ignacio Martin: Yeah. Actually the plan we are going to be having a contract of three years that's probably one extension and the value is calculated on that period.

Shridhar: Wonderful. And the other thing is that F.C. also mentioned that's entry into bKash. Can you throw some more light on what exactly that is because this is the first time you're talking about something which is in non-operator wallet space. As the company has not done anything in non-operator wallet space. So, what exactly is that?

Sanjay Bhambri:

Yeah. Hi, this is Sanjay this side. So, what we've been trying to do is from a strategy standpoint, we're also looking at alternate wallets. Some of our learnings from the disruption which happened in India is that we should also be able to access non-mobile operator wallet. And under that strategy the first contract or dealer relationship we did was in Bangladesh. BKash is simply a mobile financial services provider. It's the Number 1 provider in Bangladesh. Just to make it simple it is similar to what Paytm is in India. And what fundamentally it gives us is one a different target audience, secondly an alternate charging mechanism for our services and thirdly what happens is the profile specifically from a wallet standpoint, the restriction on the mobile wallet globally there are some restrictions as you are quite aware of. It helps us to explore other avenues of doing services, number 3. And number 4, the wallet size is a much bigger. If I can give you an example in Bangladesh, it says the number 1 telecom operator is Grameenphone which has around of 50% of market share. Typically we would have around 15 to 20 local currency which is Taka, available in the wallet whereas mobile financial services are specific to be cash, we would have approximately a range of around 300 local currency which is Bangladesh Taka. So, which means the profile of services you can charge moves take a different segment, it expansion from a strategy standpoint it's expansion of services into a new one.

Shridhar:

Sorry for my ignorance and pardon me for my ignorance. What exactly do you offer then? I'm just trying to understand, what does OnMobile provide in bKash?

Sanjay Bhambri:

Okay. Fundamentally what we offer is the content services. So, a person can buy games for example. Or what we do typically for a telecom operator the similar kind of services and a little higher grade services can be provided where the guy or the consumer at the end can use the service or buy the service and pay through Paytm for example which is what exactly bKash is.

Shridhar:

Oh, okay. Fine. So, you know, it's basically enabling a consumer finally to use a certain wallet, you know. But I'm saying that's not going to indirectly drive a certain flow but... a consumer flow but you're not going to get anything directly for bKash, is that correct?

Sanjay Bhambri:

No, we will get it from bKash. So, today I do a service and I charge, it is effectively

Shridhar:

I understood the Paytm model where for any services what is being provided for example, if I buy a game, I buy a tone, etc. today I can

pay through credit card. Instead of credit card is use bKash and therefore bKash will settle me the money. That's... is that right?

Sanjay Bhambri:

Yes.

Shridhar:

Wonderful, okay. So, otherwise this quarter, Ganesh, it's largely driven by the depreciation... reduction in depreciation and the one-off gain. What is this big one-off gain on the Forex side.

Ganesh Murthy:

There are two reasons. One is we had converted some of the loans given as inter-company loans into equity capital and there was gain in the exchange which was recorded in OCI, Other Comprehensive Income which had to be moved to P&L. That's a one-off item and we have mentioned that in the notes to the accounts. The second was the regular forex gain because you know the rupee has depreciated sharply in the last one quarter.

Shridhar:

Sir, my question was, what... on the 16 crore what you had actually mentioned. My question was more around...

Ganesh Murthy:

Yes, so, that's what I was talking about. Yes

Shridhar:

Okay. Fine. Thank you so much.

François-Charles:

Thank you.

Moderator:

So, next we have Lalaram from Vibrant Securities. Your line is unmuted.

Lalaram:

Hello. I have a few questions in numbers. One is the tax rate this quarter has come down significantly to 20%. Going forward, what should we assume because historically it has been much higher.

Ganesh Murthy:

Yes. So, one of our initiatives which I explained to you was to reduce our overall effective tax rate and we have taken several measures there. And some of these measures are to increase our deferred tax reserves in various countries and so on. So, going forward our objective is to you know, historically effective tax rate has been the region of about 60%. But our aim is this year to bring it to around 45%.

Lalaram:

Okay. So, this quarter was significantly much lower. So, we should not assume this, right, going forward?

Ganesh Murthy:

Yeah, this... because as someone mentioned, you know, here is this Forex gain of 16 crores which is not taxable.

- Lalaram:** Okay. Got it. So, just for that then we'll get a true tax picture. Okay. Secondly, in terms of your cash close, I see that a bigger chunk of these has been driven by a drop in current asset setting around 25 crores. So, can you explain me that number in terms of what...
- Ganesh Murthy:** Yes, that is unbilled receivables.
- Lalaram:** Unbilled receivables.
- Ganesh Murthy:** Yes. So, what happens is if you look at the last quarter, last quarter there was 24 crores increase in unbilled receivables.
- Lalaram:** Okay.
- Ganesh Murthy:** And because there was a delay in raising the invoices to some customers because of certain issues at the customers' side.
- Lalaram:** Okay.
- Ganesh Murthy:** And we managed to issue those invoices this quarter. So, that's why there is a decrease this quarter.
- Lalaram:** Okay. Understood. Thirdly, on the contest side, where you say digitization, does it mean we will move to like an app or what exactly does that mean, digitization of a contest product?
- Sanjay Bhambri:** Yes. Fundamentally if you look at it prior to getting into the digitization, our services were revolving around SMS and IVR voice services. Now what we're doing is we are moving the whole framework or rather we have already moved the framework on app where a different kind of contest can be played. So, you're right.
- Lalaram:** So, if I am correct, this app won't be a, you know, a kind of app for contest. So, this app would be a separate app for contest or is it a part of a different app which will have much other services also?
- Sanjay Bhambri:** It will depend on our partners in this case, operators are looking at it. So, for example I can give you multiple use cases of this. For example, one of the use cases could be in a operator main app, you will have one tab that I can go and win some prizes like talk time and stuff like that. That is one way of looking at it. Second way of looking at it is this app can be integrated with the retail side of the operators where the retailers are playing and they're... so, there are different use cases which the operators are using this for.
- Lalaram:** Okay. So, I believe till now we were only doing this in India, the contest product.

Sanjay Bhambri: Yes, you're correct. Till now we were only doing it in India. As Ganesh and F.C. explained earlier in the previous calls, today the strategy focus of the organization and contest is one of them. So, obviously it has to be a global product and that's how it is being moved outside India and to all different parts of the world.

Lalaram: Okay. So, if I go by the numbers even if you see that within India we are generating around 40 crores of revenues in contest around 10 crore a quarter, is around 40 growth a year that is a significant chunk. So, can we expect such scale of revenues to come from even non India regions, is it possible?

Ganesh Murthy: So, see, that is over a period of time.

Lalaram: Okay.

Ganesh Murthy: The particular launch... the contest that we are launching in Q3 in Middle East has been well received and initial feedback is very positive.

Lalaram: Okay.

Ganesh Murthy: Again, this contest is something that we run with all the operators. So, this gives us an opportunity to move beyond India with the digitization.

Lalaram: Okay. Finally, one question on the top line. So, one of the biggest drags for our company was that revenues have been either been static or de-growing driven by RBT. But as we have seen that now video has become the number one product by revenues, even games is growing. So, with time we'll see that the growing pie of the, you know, video products would be a bigger share. So, can we assume that in the next say four quarters or one year or two years we should start seeing a growth in revenues of can it happen earlier as well based on internal, you know, estimate of the company?

Ganesh Murthy: See, we are growing. In our games area we are growing, in video, in editorials. The issue had been in the tones area especially in India where we have seen decline in revenue and primarily this has been driven because of the operator wallet issue in India. We have taken several steps and I think the last time we explained that we have got into bundled plans with various operators. We are seeing good traction in that and we are hopeful that once we are able to stabilize the tones revenue, we may not grow it significantly but the aim is to stabilize it and to keep it at a particular level and then we will see the overall positive growth.

- Lalaram:** Okay. One final question...
- Ganesh Murthy:** Next our aim is definitely to look at quarter-on-quarter growth in the remaining quarters.
- Lalaram:** Okay. Because I think in the last quarter we had the show of positive growth in the tones as well which was increasing. But this quarter again it reversed and we de-grew. So, I understand that the situations are dynamic in tones with a lot of operative intensity and ARPU decreasing. So, I just want to understand whether what kind of internally we think what kind of growth is possible overall. Anyways, I think one last question on the severance cost I think we have been downsizing our staff and the closing offices. So, we have in the first-half we have booked around 2.8 crores and 1.5 crores. So, around 4.3 crores, you know, expense. So, should we assume that this would be... should not repeat in the next year? Is it correct?
- Ganesh Murthy:** That is correct. We will still incur some small amount of severance cost but nothing at this level. And again, as I mentioned, we are not doing any downsizing across the board, it is primarily the severance cost that you see in the P&L in Quarter 2 was because of our objective of closing down our R&D center in Paris. And that was part of the plan, we have done that and that will result in significant savings in the coming quarters.
- Lalaram:** Got it. So, if I adjust for that we have already touched around, you know, eight plus, around 8% to 9% EBITDA margins. So, is it safe to say that next year we should not be surprised if it touched 10% margins, you know, and if 20% itself or it is too early to say that?
- Ganesh Murthy:** Our objective is obviously to improve EBITDA margins to get into double digit EBITDA margins. But again, it's also a question of amount of investment that we need to do for marketing now that we are getting into games, we are getting into video and editorials in a big way, there is some amount of marketing dollars that we have to spend to grow our revenue and to achieve growth in a number of subscribers.
- Lalaram:** Yeah, I can see that in the, in QOQ we have increased our marketing cost by 47%. This is all linked to core marketing, right?
- Ganesh Murthy:** That's correct, digital marketing.
- Lalaram:** Okay. And...

- Ganesh Murthy:** And I do want to mention in marketing, we do a very clearly cost benefit analysis. It's just not just random marketing spend that is undertaken. We make sure that the cost per acquisition is we get a much better, much higher revenue for every dollar of marketing spend that we incur.
- Lalaram:** Got it. That's from my side. Thanks a lot and all the best. Thank you.
- François-Charles:** Thank you.
- Ganesh Murthy:** Moderator, we'll take one last question.
- Moderator:** Okay, sir. The last question we have from Shridhar, individual investor. Your line is unmuted.
- Shridhar:** Yeah, thank you so much. And sorry, I forgot this question. F.C., is there any idea or thought to bring in head of technology or a chief technology officer for the company?
- François-Charles:** I mean, we have very good VP engineering but, yeah, we discussed in the past the importance of getting a CTO. You know, right now, with many acquisitions it brings a lot of strength, that's exactly, with the Appland acquisition, we have onboard a very strong CTO Henrik who is based in Sweden and responsible for the gaming part. So, depending on the future, the way we scale up the organization we will decide on what skills that we bring or not.
- Shridhar:** Because if you look for the company of, you know, that's close to 100 million revenue you have got a good CFO, good team, you know, sort of you have Bhambri and you have the gentleman who's handling the operations. So, it's imperative for you to have a strong technology guy to kind of really drive all the technology field and seeing that as a missing link here.
- Ganesh Murthy:** These are high senior placement and senior positions in the organization. We really cannot comment on them publicly.
- Shridhar:** No, my question was not about comment. Sorry, Ganesh. My point was not about whether you want to comment. My question is, there was a role, there was a gentleman who used to be the CTO in this company and then that was vacant. My question is, are there any plans to fill the vacancy, that's a simple question. I think already F.C. addressed it.
- François-Charles:** Yeah, we have said that that's obviously an important position and as the CEO and Chairman, we are looking at it. And as the new pieces are moving it'll fall in place.

Shridhar: Thank you so much.

François-Charles: Thank you.

Moderator: At this time, there are no further questions in the queue. So, I would like to now hand over the floor back to the speaker for final remarks. Thank you and over to you, sir.

François-Charles: Thank you.

Thank you everyone for this call. And just to wrap up, you know, as you saw we've been pretty busy. I want to thank the team also and Ganesh and finance and admin team for all their good work. And you know, just to wrap up, you know, right now in our product lines, you know, we are seeing growth in video and editorial and pushing everywhere. We are seeing growth in games obviously those discussions about Appland and the traction we had before and after this acquisition. And we are seeing traction also in digital contest. I remain very positive on the company and on the path we're going. So, thank you very much and I look forward to speaking to you on the next quarter call. Thank you.

Moderator: Thank you so much speakers for addressing the session. Thank you participants for participating. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant evening.