"OnMobile Global Limited
Q1FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the OnMobile Global Limited Q1 FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Jagtap from E&Y IR. Thank you, and over to you, sir.

Pratik Jagtap: Thank you, Aman. Good day, and welcome to the Q1 FY'24 Earnings Call of OnMobile Global Limited.

Representing the Management today we have FC – Executive Chairman; Sanjay Baweja – Managing Director and Global CEO; Asheesh Chatterjee – Global Group CFO; Biswajit Nandi – Chief Business Officer; and Radhika Venugopal – Vice President (Finance).

The call will start with a brief update about the overall performance during the quarter by Sanjay Baweja, Asheesh will update on financials, which will be then followed by FC speaking on overall business activity and sharing his thoughts on future plan. We will then open the floor for question-and-answer session.

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 that we see. For a list of such considerations, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future or likely events or circumstances.

Having said that, I now hand over the call to Mr. Sanjay. Over to you, sir.

Sanjay Baweja: Thank you, Pratik. Good evening, everybody. I'm really happy to interact with all of you once again, and I thank you all for taking time to join us today. Hope all of you are doing well. The results and presentation are already hosted on our website, and hopefully all of you had a chance to look at them. As always, I will give a brief update on the products and business, and then Asheesh will take you all through the highlights of our financial performance.

Let me start off by saying that this has been a really good quarter for us. Though the revenue growth is modest on a sequential basis, we have managed to improve our profitability significantly. And we will try to continue with this momentum in the coming quarters.

Let me quickly jump to the update on Challenges Arena. This quarter, Challenges Arena sales saw a marginal revenue growth due to slow revenue ramp-up from our new operators. Also, marketing optimization is taking slightly longer than expected to maximize revenue and profitability. During the quarter, however, cumulatively 54 customers went live as against 42 in Q4 of FY'23, reflecting an increase of 29%.

In terms of revenue, CA has grown 2x year-on-year. And it has increased 22x in the last 9 quarters. Further, in Q1 FY'24, 7 new customers agreed to our Challenges Arena and taking our overall cumulative agreements to as high as 73. We expect the momentum to continue and these cumulative agreements to reach around 81 by the end of Q2 FY'24, driven by successful outbound sales effort resulting in increased sales.

We continue our discussions with potential customers around the globe currently. If we were to include our existing partners, we are in conversations with more than 120 customers as we speak. As of Q1 FY'24 out of the 73 customer confirmations, 57 are new logos, which is 78%. And this clearly highlights our accomplishments as well as our potential for future cross-selling opportunities with these customers. In terms of usage and actual consumers cumulative gross paying subscribers at the end of current quarter stood at 21.34 million as compared to 17.56 million at the end of March 2023, a growth of 22%. We are targeting to touch a figure of 24 million-plus subscribers by the end of Q2 FY'24. We are continuing to see healthy pipeline and expect to be live and find more clients in the coming quarters. Challenges Arena's net active base saw steady growth from 3.1 million to 3.5 million at the end of Q1 FY'24. We are targeting to touch 3.74 million subscribers in Q2 FY'24.

This quarter we experienced some slowdown in CA revenue due to delayed launches. As we said, we are using the second quarter to really consolidate our positioning across with some of our customers who are changing their business models. But we are sure with many new customers joining the CA platform, we will emerge even stronger in H2. I'd like to emphasize that this is a subscription business, and that revenue will continue to improve as we add more and more subscribers. Indeed, we believe that Challenges Arena will significantly boost our revenues in the coming H2 and beyond and will give us better profitability. And our exit for Q4 is targeted to be much beyond the current levels. We are currently in the investment phase, as mentioned in the previous earning calls, investing in growth through disproportionately high marketing spend, particularly in the new geographies or operators with which we are constantly going live. We expect Challenges Arena to generate an EBITDA of more than 30% in the coming quarters, as you know, which will boost our profitability even further in the next couple of quarters.

Coming now to ONMO:

As of Q1 FY'24, we have 25 customers who confirmed for this product out of which 10 are already live. We expect cumulative agreements to reach around 32 by the end of Q2 FY'24. Revenue grew by 18% quarter-on-quarter basis and close to 13x since its inception. Our focus has been to go live with more and more telcos efficiently and smoothly. We have crossed the 600,000 live subscriber mark and are expected to go up to 1 million within the next few quarters. We are significantly improving the product in terms of the B2B support, the onboarding, the progressive mechanics and more features to promote deeper engagement and long-term retention. Prospective customers continue to show significant traction. In FY'24, we anticipate generating much higher B2B revenue.

Let me also give you now a small update on Gamize. As of Q1 FY'24, we have 2 customer confirmations in this segment. As you're aware, we've just kind of launched it. We have a robust deal pipeline for this new segment, and we expect to see healthy growth in the customer confirmations in the coming quarters.

Now I would want to talk about the mobile entertainment section, mainly tones and videos. Videos saw a decent 5.2% growth on quarter-on-quarter basis due to increased subscriber base in the Europe region. Infotainment growth on a sequential basis due to increased contests in India and Middle East. Tones slightly de-grew on a quarter-on-quarter basis due to some amount of Forex impact and lower subscriber base in one of the operators. Simultaneously, we've been able to cross-sell our business to new logos which we've acquired through CA. And we are positive about some more customer agreements happening in the coming quarter for the mobile entertainment business. We will be going live with some of the new customers that we've acquired. And we expect that to happen by the end of this quarter or early next quarter. So, clearly that revenue is going to happen for our business.

But on the other thing that I want to talk about is the organizational transformation, which has helped us increase our profitability this quarter. As was mentioned in our most recent call, we wish to continue this performance in the coming quarters, which will help us meet our revenue target of greater than INR 600 crores for FY'24 with higher margins. Also, I want to take this opportunity to highlight here that the 28% GST which is applied on online gaming will not have much impact on our gaming business as our products, first of all, do not come under the real money gaming. And our gaming growth actually is coming more and more from global customers where this is absolutely not applicable.

Now before I pass on to Asheesh, let me reemphasize that we have our battles cut-out on 3 fronts. First being revenue, second is profitability, and last but definitely not the least is cash. I believe that we've started on our revenue growth and new products are leading the charge. It is a matter of couple of quarters when you will really see solid numbers on that front. Our profitability, on the other hand, has improved, and we are unlikely to see any volatility on that front. On our cash, while we've been investing on new products and marketing and you've seen that our cash reserves have depleted, we are at the threshold where we will start increasing our cash from H2 onwards. So, all in all, I can assure you that our H2 is targeted to be far superior to H1 on all the 3 parameters, which we, as a company, are focused on.

With this, I would like to hand over the call to Asheesh to talk more about the financial performance. Thank you.

Asheesh Chatterjee: Thank you, Sanjay. A warm welcome, and thank you, everyone, to join us on this call. I'll share the key highlights of our financial performance for the first quarter ended June 30, 2023. In terms of Q1 FY'24 performance, we reported a revenue of INR 139.6 crores, marginally up by 3.8% on a quarter-on-quarter basis. Gross profits witnessed a healthy growth of 10% on a Y-o-Y basis to INR 77.1 crores. And gross margin improved by 437 basis points to 56.3% on a Y-o-Y basis.

On our gaming business today, Challenges Arena and ONMO put together, we have now 98 contracted confirmations and 64 live customers. This is up 3x on a year-on-year basis. Our gaming revenues today constitute 18% of our total revenues, up 2.5x on a year-on-year basis. Our mobile entertainment business remains steady and very profitable. We saw upsides in Europe, which helped in the revenue growth.

On the cost front, manpower cost is reduced by 13.3% on a quarter-on-quarter basis. Operational costs are also reduced by 15.8% on a quarter-on-quarter basis due to cost optimization efforts. We continue in our efforts to improve efficiency and productivity. These reductions in the cost have resulted in improved EBITDA for the quarter, which stood at INR 12.3 crores, up by almost 6x on a quarter-on-quarter basis and 58.5% growth on a Y-o-Y basis. EBITDA margins for the quarter are at 9% as compared to 1.6% last quarter. We reported a PAT of INR 9.8 crore, up by 138% on a Y-o-Y basis. PAT margins for the quarter is at 7.2%. Overall, DSO stands at 119 days for quarter 1 FY'24. In terms of geographies, Middle East and Africa registered the highest growth at 16.2%, followed by Asia and Europe, growing at 2.7% and 5% on a year-on-year basis. During this quarter, we also incurred R&D or product development expenditures of around INR 17.8 crores as we continue our foray into the B2B space in gaming.

With this, I will now hand over the call to FC.

Francois-Charles Sirois: Thank you, Asheesh. Thank you all. Last quarter, we discussed the big changes in streamlining that we did in the company. Clearly shows in 1 quarter. And you can see right away the people cost went down. We streamlined the operation to make sure we could actually have a bigger output on number of operators that go live. You see it right in the chart, they used to be 7, 10 operators a quarter for both CA and ONMO. And now we're at 18 going to 20 a quarter, and we should be at 20 average a quarter for the year. 20 a quarter for a year, that's 80 operators going live this year for both CA and ONMO which is quite huge where we never did 80 operators in 23 years history with OnMobile launching whatever kind of service. Now we're really focused on streamlining, on getting this operation out. So, congrats to the team for being able to do that change which operationally was key to do because, obviously, it's one thing to sign an operator and another thing to make the service live and then capture the revenue. So, it's a 3-step process. We signed the operator, we get it live and then we capture the revenue by investing in marketing, and it's key to invest in marketing at the good ratios also so that we don't waste money, that we're sure that we do it in a smart way and that we show the profitability, and that's exactly what we did this quarter. So, congrats to the team on this.

When we see and overlook on the year, mobile gaming will be 25% of our revenues or more. The big change this year is now getting both CA and ONMO are getting with scale. As said, both Sanjay and Asheesh talked about the profitability there. The size is there, activating the number of operators that we're talking about, now we're in the 100s with our target by 2025 to be at 200, it does create a lot of scale. But the big change also is that we go from the 3-year investment, as we all know, we invested a lot of money into building these gaming products to now being pretty much breakeven soon. And next year, all products will be breakeven or generating EBITDA plus the EBITDA of mobile entertainment. So, the 2 combined is 2 positive versus 1 dragging down the cash and 1 putting the cash.

We also optimized operation in mobile entertainment, which clearly shows a good profitability. So, overall, I think we were in a very good situation to capture the year '24 and enter the year '25, next year, with very good profitability. So, I thank the team for all the support on getting it done. And to this, we'll open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I just wanted to understand on the new product side, Challenges Arena and ONMO. Now this quarter, I think our revenue from Challenges Arena has not seen any growth, right? Largely, it was flattish on a quarter-on-quarter basis.

Sanjay Baweja: No, growth has been there. It's a modest growth in terms of absolute percentages. But I think what is more critical is the focus on profitability. As we are consolidating our model, we continue to grow in terms of our revenue growth.

Deepak Poddar: So, what was our absolute number in Challenges Arena revenue?

Asheesh Chatterjee: So, it's INR 187 million in terms of revenues for Challenges Arena. It's a 1.2% growth for the quarter.

Deepak Poddar: But I think we have been talking in the past as well, I mean, these 2 products can be as big as our traditional legacy business, right, which is around INR 500 crores. So, are we still holding on to it? And how many years you think it might take to reach that kind of scale in these particular products.

Sanjay Baweja: So, we had given that thought and we still maintain that. And that was a 3- to 5-year outlook that we had given. And we believe that we will reach that space.

Deepak Poddar: So, it's already been, I think, 1 to 1.5 years, right, since we spoke.

Sanjay Baweja: Yes, ONMO, we had just started. ONMO is we're still in a sense we are at a beta stage. But yes, CA, we've just started 1.5 years ago. And remember, this is the traditional business our mobile entertainment business consists of 3 products which have been there for the last 20 years. So, clearly, we want to upstage this. And we believe that we will upstage these numbers as we go along.

Deepak Poddar: Correct. So, as we stand today, from today, 3 years would be a fair kind of an estimate to target that kind of scale for these 2 products?

Sanjay Baweja: Yes, 3 years would be a good tax case to target these.

Deepak Poddar: That's what we're targeting together, right, Challenges Arena plus ONMO?

Sanjay Baweja: Correct. Initially together and at some stage maybe each.

Deepak Poddar: In your opening remarks, you did mention that the profitability that we have seen in the first quarter is kind of a sustainable. And we will look to improve upon that in coming quarters, right?

Sanjay Baweja: Our clear target and our belief is that our H2 is going to be much better than our H1. And yes, I think we will have very little volatility as far as our profitability is concerned. The only change we see is that H2 being more superior than H1.

Deepak Poddar: We are talking in terms of profitability or revenue?

Sanjay Baweja: Profitability, absolute profits, all of that.

Deepak Poddar: That's very good to hear there. And in terms of your traditional business, I think that has also seen a decent growth. This quarter saw a decent growth of maybe what, 9% to 10% on a quarter-on-quarter basis. So, how do we see the traditional business going forward?

Sanjay Baweja: Like we said, the videos had shown good growth, and we believe that will continue. The tones business, last time we had said that we've acquired new customers in LatAm, and we expect them to start generating revenues in Q3 and then Q4 of course. So, we believe that Q3 and Q4, even the tones business will also start growing pretty rapidly. So, overall, at the year level, we should see growth in our tones and video business.

Asheesh Chatterjee: And if I may just add, on the mobile entertainment business, we have focused a lot on building efficiencies and productivity. So, whatever growth now we will see on the mobile entertainment side is directly going to go to the bottom line. So, that's one big part. And on the gaming side, we have a very good gross margin. So, gaming per se as it scales up in terms of marketing and net adds, again that will translate into a very good steady state margin. And today, with 98 contract confirmation between CA and ONMO, we are nearly halfway down to our vision or objective that we had articulated a few quarters back. So, on both the fronts we are moving in line with what we had estimated before.

Deepak Poddar: Okay. And a couple of final questions. Now on this recent government ordinance on GST of 28% on online gaming. Does it have any impact on us?

Sanjay Baweja: Our India business is very small as compared to our global business. So, that's the first aspect. Second, if you read that circular and the details are still to be out, but very clearly said that they will put the GST on the money which the person bets. In our case, there's no betting, we are not in real money gaming. So, the betting amount from our side is always 0. We only have some winnings, et cetera, on which there could be a possibility once and we will know once the circular is out, the rules are out that the GST will be on some part of the winning and how we have to calculate. So, our belief is the impact will be miniscule because there is no chance of a person putting money in and losing it to GST. So, that aspect is not there as far as our business is concerned. So, therefore, we don't believe it may have a major impact overall.

Deepak Poddar: That's pretty clear. And for this year, FY'24, at the company level, what sort of revenue growth you might be looking at?

Sanjay Baweja: Our stated position is that we should top the INR 600 crores mark, and that's what we are sticking to. How much over that we go, we don't want to call it out. But yes, our aim is to go beyond the INR 600 crores mark.

Moderator: The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh: Sir, I have 3 questions. So, the first question is we are in the gaming business, and we have 2 products and one more product we launched. I want to understand around the product, do we develop the gains, or do we develop the platform? And why I'm asking is because games have their own shelf life and product lifecycle. So, in case we are creating the game, do we need to continuously build new games? How does it work? If you can give some insights on the operational level. The second question is more on the overall total opportunity size. And in one of the quarters you have hit upon this point that it's not only about 200 operators, but the total subscribers. But is it like a pareto which works here well when we have 100 operators already there, we have captured 80% of the market? Or how we should look in terms of penetration? And third question I have is the kind of business we are in is very disruptive, right, when it started with VAS in 2005. So, as a company, how we look to ensure that we don't get cannibalized or we don't get disrupted, how do we invite that kind of mindset that every 1 or 2 years we keep looking if we are getting disrupted the way tech keeps changing every 2, 3 years in the mobile world?

Sanjay Baweja: So, clearly, great questions. Let me take that first one, the games part. Obviously, we don't publish games. We are a platform, and that's what Challenges Arena and ONMO, both are actually platforms from an overall perspective. And I would want actually from an opportunities and subscribers perspective, Nandi and FC to talk about the big picture for the opportunities that we're talking, specifically global. And in terms of disruption, I think we, as a company, are in that innovative mind frame where we started with one aspect and then we had content and we graduated on to gaming. And clearly, we will continue to innovate and continue to get new products as the market evolves. We will continue to be on the leading edge as we go along. So, I think maybe Nandi can talk about the opportunities and subscribers, et cetera, and then maybe FC can also speak.

Biswajit Nandi: So, in terms of the way we look at our target is twofold. First is the operator that we sign up. That's number one. And then when we sign up an operator, in that operator, there is a gaming segment that we cater to. Now that varies from operator to operator, and that is your segment of consumers to whom you need to market our products. And let’s say Google or a DSP.

Moderator: Mr. Nandi, sorry to interrupt you again. Your voice is breaking. Sir, we are still unable to hear Biswajit.

Francois-Charles Sirois: Yes, let me jump in on this. So, obviously, as Nandi was saying, the first step is to sign the operator. The second step is to make sure that they are live, right, that we do the onboarding of the operator, and then we can spend the marketing in the right way to make sure that we get the subscribers. And you're totally right, at the end you need to get a lot of subscribers so that they are paying subscribers so that we can make the revenue and the profitability. The challenge just on onboarding, and I'll get back to ONMO. So, ONMO is a way bigger integration than Challenges Arena, that's why we have the 2 products. Challenges Arena came out of our content business where we did digital contents and we added quiz and puzzle and we focus on the quiz and puzzle app. It was an app that works easily on any operator, that you are a 3G operator, 4G operator, it works for everybody. And that's how we got Challenges Arena deployed faster in the market than ONMO. ONMO, if we recall, we use the opportunity of having 20 years expertise on phones to deploy servers with an operator. And if you look today at 5G, to do 5G cloud gaming you need to do EDGE, you need to have servers on the EDGE. And basically, servers on the EDGE is servers within the telecom operator. So, if you see it this way, we've been doing EDGE computing for 20 years, deploying servers in telecom network operations. And using this and using the fact that there was no pure-play mobile gaming service for 5G operators, we invested a lot in the cloud gaming and 5G mobile cloud gaming solution, which is ONMO today. When we pitch to an operator today on 5G, we're the only provider that brings a solution for a mobile-first solution for 5G. And obviously for this to work as a full 5G service, we need to deploy gaming servers into the telecom operator, this link back to the tones business of being able to install tones servers, now we're using the same theme to install gaming servers. That's why when you look in terms of a pickup on the market, if you look at number of operators who signed up with Challenge Area versus ONMO, ONMO lagged a year, 1.5 years after CA because it was way more complicated technically to do, to remind all investorswe have 2 core technologies to make ONMO work. We have our own cloud gaming technology to be able to do snapshots. So, start any game at any point and do a mobile moment of the game. And we have an AI technology to read the stream live, the video, and decide who is the winner and stop the moment so we can decide who is the winner. So, you need to start the moment and end the moment. So, those are 2 technologies that we own that are 100% own. We have the only patent in the world to do mobile moments on gaming on any game. So, we can take any game on the app store and create mobile moments with this. And this is what 5G operators find very interesting. And I must say, even in America, right now, we're in discussion with most operators here in America, Canada and USA. And nobody else is talking to operators for mobile gaming on that specific service. So, when I'm back on activating the operators, when you see, that's what was mentioning the importance and being able to scale up the number of operators that go live, you see that now we move from the situation where ONMO was very little operator going live 1 or 2 a quarter to now we're forecasting about 10 in the coming quarter, which is almost the equivalent or the equivalent of Challenges Area. So, that's the first thing that's changing in when we talk about scale making the revenues. Now once you get the operator live, we need to get the subscriber live. And as Sanjay was mentioning, 57% of the operators that we're signing, our new operators in new markets that we don't know. Before, when we were activating Challenges Arena operators, we were really live with tones or with something else in the market. So, we knew how to acquire subscribers, what's the right mix for the market. Now what we've realized, we have to be careful. We can't just enter a market and drop a lot of money because it will not convert to the same metric and we'll waste money. And a lot of companies are wasting money on marketing. And the last thing we want to show you is a nice graph going with revenues skyrocketing or skyrocketing up to the air, but more marketing cost than revenues coming in to get these revenue. So, the management has been very smart and being multi-managed. How much marketing we put in the market and what's the output? And if it takes 1, 2 or 3 months to get this tuned up or lets take the 1, 2, 3 months to tune it up before, so we don't waste money so that we can balance profitability while we get the user count.

Let's finish with your question. When we will have all the operators in the platform, when we say our target is 200 operators within 2025, and they're all optimized in the market. The revenues that will be generated by both ONMO and CA on an optimized basis in 200 markets will generate a lot of revenues compared to what we have today. So, I hope that answered your question.

Kumar Saurabh: Thanks for such an elaborative response and wish you all the best for the coming quarters.

Moderator: The next question is from the line of Kanwaljit Singh from Balaji Finvestment. Please go ahead.

Kanwaljit Singh: Congratulations for the good set of numbers. My query is regarding your investment in Chingari. And in the last presentation that you provided in Q4, there was a mention of Gamize. But there is no mention of the same in the current presentation. So, what has changed in the while?

Sanjay Baweja: Let me try and answer that. As far as Chingari is concerned, they are working well. I think they've got some investments recently from Aptos, which is one of a Tier 1 blockchain company. So, our belief is that they are continuing to hold discussions, and we expect that something will come out more as far as Chingari is concerned over the next maybe couple of months or something. So, we expect them to continue their discussions in terms of raise that they are doing as of now and also in terms of their future profitability. So, we are fine. As far as our investment is concerned, I think the valuation at which they are is far, far greater than what we've invested the money at. So, that's one. The other aspect in terms of Gamize. I did mention in what I said that we've already got a couple of customers. We're talking to about 20 more people across. And we've just kind of launched it. So, last time we wanted to make you aware of the product per se and therefore it was part of the presentation in that sense. But beyond that, to repeat the slides and say, oh, you know what, this is the product, which we've already told you last time, we thought let it get substantial in terms of numbers and then we'll start putting a slide to it. There's nothing more about it, except that since we had introduced the product last time, we put a couple of slides for it last time. But now the real crux is to capture the market. And once we reach to a stage where we think it's significant enough because it's just the start of launch. So, we will come back and give numbers also.

Moderator: The next question is from the line of Isha Doshi from TMF. Please go ahead.

Isha Doshi: Sir, can you tell us more about your online gaming business. In the past quarters, it was negative and in this quarter it turned positive. So, can you tell us more about it?

Asheesh Chatterjee: As I mentioned, we have 3 products on our gaming side, Challenges Arena, ONMO and Gamize which is recently launched. But looking at the older business, seeing ONMO today, we have 98 contract confirmations. And it's a global business reaching out to the telcos across the globe. And we have seen rapid growth. Today it constitutes roughly 18% of our top line. And it is only going to become bigger, expecting it to be quarter off our top line very soon. And few quarters back, we had articulated our vision that we want to kind of be with 200 operators globally with our gaming products. And I think we are working in line or committed to that path of on the gaming side. So, the gaming business is a 90% gross profit or gross margin business. And at a steady state, it can deliver 30% EBITDA. Today, we are investing in this business as we put in the marketing dollars to acquire customers and scale them. So, today, there will be some bit of lower profitability. But as we scale up the customers we have already acquired will see a rapid change in numbers, both at the top line and the bottom line.

Isha Doshi: Sir, if possible, sir, can you share us your 3-year gaming vision?

Sanjay Baweja: Sure. We'll do that. We'll take down your number and we'll share that separately with you.

Moderator: The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Sir, firstly, I want to like want to understand on the margin side. As you mentioned, we have around 30% EBITDA margins in the gaming side. And this gaming as a whole contribute 18% or the Challenges Arena part contributes 18% to our sales?

Sanjay Baweja: Let me just correct what we've been saying. We're saying that at a steady state, Challenges Arena and even ONMO will have an EBITDA of 30%. So, that's one thing. As of today, both between Challenges Arena and ONMO together constitute 18%. And we believe that by the end of this year, it should be closer to 25%. Please also remember, like FC also mentioned and Asheesh has been saying, we've not reached that steady state as of now. As of now, we are investing disproportionately more in the marketing side. And therefore, the profitability is not at that level. ONMO is still at the beta stage. So, there's still investment and capitalization happening. And the operating leverage is so high. Asheesh just mentioned about 90% gross margin. So, the operating leverage is so high that once we scale it up a little more, certainly, we'll have much higher profitability. And therefore, we expect that at the exit, for example, at the end of the year, we will be highly profitable as far as Challenges Arena is concerned. And ONMO also will become profitable. So, clearly, 30% is the steady-state profitability of both the products, but we are not there yet as far as the profitability is concerned. But having said that, the profitability that we have attained for the company as a whole, if we were to compare ourselves in H2, we believe that our H2 would be far superior than our H1 in terms of profitability and revenue, both.

Hiten Boricha: So, our margin in H2, can it touch to like double-digit kind of margin, which we used to do like in March 2021 or something? Can we do 10% to 12% kind of margin in H2?

Sanjay Baweja: Well, I don't want to give numbers, but yes, that is a very good possibility.

Hiten Boricha: And majority of this will be contributed by a gaming segment, right, sir?

Sanjay Baweja: Please remember, Asheesh had just mentioned, our mobile entertainment business is now also because of the efficiencies that we've been able to bring about at the end of the last quarter, even that is far more profitable now. So, we are actually in the mobile entertainment, we are beyond 15% in terms of our profitability. It's because the other 2 businesses, like I just said, we are investing disproportionately in terms of marketing and therefore, they are still very low or negative, we are getting this lower number. Otherwise, our mobile entertainment business has now crossed the threshold of 15% profitability.

Hiten Boricha: So, sir, if you can share what kind of like percentage we are spending on this marketing, just wanted to understand if we, like, this would cause decline, how it will go into positively impact our margin.

Asheesh Chatterjee: So, roughly 85% of the marketing spend that we today do is concentrated towards our gaming business. While in value terms, that number may not fall down. But as the revenue scale-up happens, as I mentioned, there are so many signed operators and they are becoming live and getting scaled up. As that number starts climbing up, this percentage to revenue ratio will decline rapidly, it will directly translate to our bottom line.

Moderator: Next question is from the line of Chethan Dhruva, as an investor. Please go ahead.

Chethan Dhruva: My question is on the EBITDA margin that you will do for the full year. So, my understanding from this call and the previous calls is that the traditional business that is excluding gaming, the business excluding gaming, does around 18% EBITDA. And from what I am hearing from you, if I've understood that correctly, by the end of the year, you will probably be able to do around 2% to 3% even on the gaming side. And gaming would contribute 25% of the revenue and the rest would be from the traditional business. So, that would be the right understanding for me to set a handle on what will be the EBITDA margins for the full year?

Asheesh Chatterjee: Yes, that's right. As you rightly articulated, the mobile entertainment is at that steady 18%. We are adding new customers, even in the mobile entertainment business. The scale up on our gaming business is also going at a rapid pace, and we should see healthy exits by Quarter 4. So, our numbers or EBITDA margin should be…

Chethan Dhruva: Okay. The blend should be as hight and good luck for the subsequent quarters.

Moderator: The next question is from the line of Ashish Mehta from Mehta Color House. Please go ahead.

Ashish Mehta: I just had a question regarding the marketing expense. The marketing expense that we incurred in this quarter, are we likely to have a similar expense in FY'24 in all the quarters? Or is it going to increase with every quarter in this year? And what about next year also?

Sanjay Baweja: So, certainly, it is likely to increase, there is no question about that. But as a percentage of revenue, so first of all, let me just segregate the 2 aspects. One is the gaming revenue and one is the mobile entertainment business. So, as a mobile entertainment business, marketing spend is very stable and it's very low as compared to the gaming. And like Asheesh mentioned, 90% of our spend is towards the gaming side as far as marketing is concerned. Marketing as a percentage of mobile gaming will continue to come down. But in absolute, since the overall mobile gaming revenue will continue to grow, the marketing spend will also continue to grow. So, I hope you get that. We will get lower percentages and therefore the profitability percentages will continue to increase, while on absolute it will continue to grow because our overall revenue from gaming will continue to grow. So, what we were 13% of revenue a couple of quarters ago in terms of mobile gaming, we will be, like we are saying, 25% towards the end of the year. So, that percentage overall will continue. So, you will notice that as an overall number, the percentage will keep growing because two things are happening. Mobile business itself, the gaming business itself is growing, and therefore the percentage will look different.

Ashish Mehta: So, do you have a target in mind when you said this marketing expense yearly?

Sanjay Baweja: I wouldn't want to target a number, but clearly, we believe that like I said, as a percentage of revenue for mobile gaming, it will continue to go downwards. We could be in our 50s in terms of percentage of revenue, could go down to much lower in the 40s. So, the entire decrease will go straight away to EBITDA.

Ashish Mehta: And that decrease, substantial decrease, do we expect by FY'25 or in '24 itself?

Sanjay Baweja: No, it is a continuous process. If you were to look at the last 4 quarters, so it has come down by about 8%, 9%. If you look at, it was 65%, 66% down to in the 50s. Our belief is as we mature and the customers are 12 months to 15 months in the network, we believe we will be into the 40s. So, maybe 3 or 4 quarters, and we could see closer to 50% and then completely below.

Moderator: The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh: Sir, two more questions. So, one question as you said in the 5G gaming area, you are the only company and gaming is like one of the high-growth areas. So, what is the reason there are no such companies? Is there some barrier to entry? Or what is the reason? And why can't the telecom company, they create their own gaming platform? That is the first question. And the second question is more on the P&L side, where if we see basically employee expenses and other expenses are the 2 key expense item. And then in other expenses, it's the marketing expense. So, if you can give some idea on the employee expense side, how much are direct variable expenses, how much is like a fixed expense. Basically, I'm trying to look between the breakup between the traditional mobile entertainment business versus the gaming business. And there was a write-off which happened last year. I think it was INR 9 crore. So, how did it happen? And how do we ensure that it doesn't happen again?

Sanjay Baweja: So, while Asheesh could also chip in, in terms of final details, I think broadly if you were to look at our numbers, if you were to follow our numbers, we were broadly at the level of around 50% gross margin, overall business and out of that, the 2 big expenses that we have is marketing and people. At one stage, we were at about 32%, 33% manpower cost in terms of percentage of revenue. And now we are very close to 20%. In fact, this quarter we had 20, but otherwise it's about 22%, 23%. So, that 7%, 8% decrease that we've been able to do passes on directly into the profitability. So, that's one aspect. Marketing, on the other hand, if you look at a couple of years ago, we were at about 7% to 8%, and that's now gone to about 18%. So, clearly, that's because mobile gaming is the bigger growth area. And like Asheesh mentioned, we are disproportionately investing in marketing currently. But having said that, slowly and steadily, like I just said to the last question that was asked, that marketing as a percentage of revenue is continuously coming down. And therefore, over time, this overall expense will become sturdy, and we will have much higher gross margin. If you notice, our gross margins is moving up.

We used to be at 48%. We are now at about 56%. So, our gross margin is going up while our marketing is also going up, but now steadily it will start stabilizing, whereas our gross margin will continue. So, we expect our gross margin as we increase the revenue from gaming, our gross margin to be closer to 60% and then beyond. And if our manpower cost, which is fixed in what you just said rightly, if the manpower cost remains at 20% and our marketing cost is at about today it's 18%, maybe it goes to about 22%, 23% because the percentage of revenue from mobile gaming will increase. We'll still have a healthy chunk available for other OpEx, and more importantly for EBITDA. Did it answer your question a little bit or got you more confused?

Kumar Saurabh: Yes, sure, sir. That answers. And there were 2 more questions around why there is no other company in this area and regarding the bad debtors and all.

Sanjay Baweja: I'll let FC talk about it a little more. So, FC, please.

Francois-Charles Sirois: As we know, mobile operators is a niche market in some sense, right, so being in this for 20 years help. In 2019, this journey started. We did the acquisition of Appland. And if you recall, we were doing games with mobile operators. The challenge we had was that the service was very not user friendly. We had to download a game, we had issues on the phone to get the downloads, and that was the basic service on mobile phones. So, all the other cloud gaming solution went directly online, directly for PC gaming where they use the console or big titles and actually stream them on cloud gaming.

Nobody took the effort to do one more step, and so okay let's do 5G cloud gaming and lets have, really as a component of moments, right, of cutting out, it looks like the trend of TikTok where you have very snap shot of video, we do the same for gaming. So, we did a lot of efforts and investment in that sense where cloud gaming companies stayed cloud gaming companies, mobile gaming companies stayed on the app store, but nobody focused on trying to combine 2, 3 technologies like we did and really address what would be the best 5G cloud gaming service out there. And that's why today when we discuss to operators, I mean, there's no one else with competing solutions. They have cloud gaming solutions that they use for their WiFi for hardcore gamers. But as we know, 79% of all people with their mobile phones play on their phone. Those are casual gamers; they are not hardcore gamers. It's a 10x number of casual gamers versus pro gamers. So, the market is really, really casual. And we created a platform that really combines for gaming with social and e-sport. And that's how we actually managed to be the only one in the market to offer this. So, today when we actually are in discussions with mobile operators, no one else has a pure solution for casual mobile gaming on 5G. And even on Challenges Arena, there's not that much competition. So, that's really the reason why we're the only one.

And expecting eventually to have some competition, but there's a first mover advantage that makes a huge difference. When you signed up all the key operators in the market first was its long-term contract. so, you are there first. And we did file a patent on being able to trade moments on the game. So, again, if you want to do short gaming moments, well, we have a patent for it. So, I mean I'm expecting competition one day, but today we don't have competition.

Kumar Saurabh: Sure. And if you could answer the last question, some amount which was written off in year '22.

Asheesh Chatterjee: That was the app. We had a subsidiary which had an earn-out reversal that was written off. The acquisition that we had made internationally, so that was written off.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for the closing remarks. Thank you, and over to you.

Francois-Charles Sirois: Thank you, all. Look forward to discussing. It's going to be the first or second week of November. So, I mean lots will go through by that time and look forward to sharing our results by then. So, thank you all for supporting the company and talk to you soon.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of OnMobile Global Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.