"OnMobile Global Limited Q1 FY23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the OnMobile Global Limited Q1 FY23 earnings conference call. As a reminder, all participants' lines will be in the 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 touch-tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Asha Gupta from Ernst & Young Investor Relations. Thank you and over to you, ma`am.

Asha Gupta: Good day and welcome to Q1 FY23 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 – Senior VP, Global Sales. The call will start with a brief update about the overall performance during the quarter given 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 plans. We will then open the floor for Q&A session.

I would like to mention that some of the statements made in today's call may be forward looking in nature or may involve risks and uncertainties that we see. This 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 floor to Sanjay sir. Sanjay, over to you.

Sanjay Baweja: Hello and good day to everyone. I am glad to be with you all once again and hope you are all doing well. Let me take this opportunity to thank all of you as well as our customers and team members for your continued trust in us. The Results and Presentation are already hosted on our website and hopefully all of you had a chance to look at them.

At the outset, I would like to introduce to you Nir Efrat, who joins us as the CEO of ONMO. He has had an illustrious career of over 25 years as a software and product development leader, and in fact, he has spent his last 12 years in leading a gaming business across the globe, growing franchises, launching titles, and generating revenue in hundreds of millions. An engineer by training, Nir has also spent 6 years in the Israeli Airforce developing software for combat aircrafts. By education, Nir has an MBA from Kellogg School of Management. For OnMobile, he is a great addition to the team and we expect that he will really make a huge difference to our gaming foray. Nir, of course, will be an integral part of these calls going forward. Welcome Nir, thank you.

Now, I will give a brief update on our products and business and then Asheesh will talk you through the highlights of our financial performance.

Let me begin with the updates on the Challenges Arena:

Q1 FY23 was in fact our most successful quarter for Challenges Arena in terms of sales. Twelve new customers agreed to our terms for Challenges Arena taking our cumulative agreements to 38. Out of these, twenty are already live as of the end of Q1 FY23. We expect the momentum to continue and these cumulative agreements to reach around 46 by the end of quarter 2 driven by successful outbound sales efforts which will result in higher sales in FY23. In fact, as of end of July 2022, we already have 42 customer confirmations and if we split it geography-wise, Middle East and Africa lead the geographies with 20 customer confirmations followed by 14 in Asia, 6 in Europe, and 2 in Latin America. Further, out of these 42 customers – let me say that – 28 are actually new logos which is almost 67% out of that. And that in itself is a very significant achievement from a sales perspective and for our future opportunities perspective in terms of cross-selling other products also to them.

Challenges Arena contribution to the total revenue continues to go up. It has increased to 7% in Q1 as against 5% last quarter. Revenue, if you were to look at Q1 last year versus now, has increased by 11x from a year-on-year perspective which evidences strong traction for the product. Robust revenue growth is expected to continue in the future quarters as more and more new clients go live. We aspire the momentum in the coming quarters. I will, at this stage, like to reiterate the guidance shared last quarter that we are aiming for a decent double-digit growth for overall OnMobile revenue in FY 2022-23 which obviously we have not seen in the past few years to say the least.

In terms of usage and actual consumers, the cumulative gross paying subscribers at the end of the quarter stood at 6.7 million as compared to 4.4 million last quarter, a growth of almost 52% quarter-on-quarter. We are targeting to touch almost 10 million – about 9.8 million – customers in Q2 FY23 which will be our highest gross addition in a single quarter till date. We are continuing to see a healthy pipeline and expect to be live and sign many more clients in the coming quarters. Challenges Arena's net active base also doubled every quarter in FY22, and in FY23, the net active base increased to 1.66 million from 1.33 million in Q4 FY22. We are targeting to touch 2.57 million customers in Q2 FY23, which is an addition of over 1 million active subscribers from the current quarter numbers. Also, to achieve the base of 1 million active subscribers, we took almost 4 quarters; 1.33 million in Q4 FY22 like we earlier said, and now, we will be increasing the next 1 million in only 2 quarters so that really shows our strength and success in Challenges Arena.

Let me add that this is also clearly a lead indicator for the revenue generation that we are likely to see. Not to mention something that you already know that this is a subscription business and as we continue to add subscribers, revenue will have a multiplier effect. We are confident actually that going forward, we will see significant revenue growth coming from Challenges Arena. I would like to reiterate that we continue to see good traction here. We are noticing an exponential increase in multi-active users for this segment.

Now, let me also talk about profitability of Challenges Arena:

As mentioned during our conversation in the last quarter, we are initially investing in growth through a disproportionately high marketing spend, especially in the new geographies or operators that we are continually going live with. We expect this to settle down by the next quarter leading to a much better profitability from Q3 onwards. CA – the product which intrinsically has a significantly higher EBITDA as compared to our existing products, at a steady state, we expect the product to generate an EBITDA of more than 30%. Also, this will reflect well on our overall profitability of the B2B business. As you all must have noticed, our gross margin has already started to improve on a quarter-on-quarter basis and we expect this trend to accelerate in the coming quarters.

Coming now to ONMO:

I am happy to inform you that ONMO B2B business has started generating revenue from this quarter. The amount as of now is very small but has given us tremendous confidence in the power of the product. We are already looking at growing this B2B revenue by more than 4x in Q2 itself. Our confidence comes from the fact that at the end of Q1 FY23, we had 12 customer confirmations. Three of them are live and two of them actually just went live in May-June. So, the impact of that revenue will start showing in Q2 itself. We are again seeing a lot of traction among the prospective customers. I would like to reiterate that we expect ONMO B2B to follow the revenue trends of Challenges Arena with probably a steeper growth trajectory.

During Q1 FY23, to start awareness about our D2C product, we launched our marketing campaign in India, which got a very positive response from everyone. In terms of numbers, we reached 3.5 million people on our key social platform, total 8 million plus impressions, and the campaign had a total of 6 million plus views. We are also seeing good early traction on the product with our campaign bringing in 2.1 million new users on ONMO. Importantly, we also saw 22% registrations coming from Chingari in the month of June, although we expect this to be much bigger in terms of numbers going forward.

We would continue to see growth in the coming quarters and increase all critical KPIs quarter-on-quarter. Going ahead, we will be doing more campaigns to create product and brand awareness. We are continually tracking performance of our campaigns to optimize them over time and with the shift focused towards getting engaged users on ONMO. These optimizations are also focused on bringing down the cost of acquisition for us.

Another important area of focus for us is to improve the product and platform performance. On the product front, we are focusing on delivering a great onboarding experience for users which ties with our goals of increasing player engagement. Simple features like "Just Beat It" help a lot in this direction. We will soon be delivering our social suite of features which are a core part of our proposition and loved by our telco partners as well, which will add to our overall B2B adoption.

On the platform front:

We have made great progress by optimizing our solution to handle more users per server. This will bring down our cost of hosting the service considerably. We are also upgrading our streaming platform to be compatible with a wider game library which will help us quickly onboard a vast set of games targeting consumers across different age groups. So, the next quarter is actually going to be really exciting for both ONMO on the D2C front and the B2B front.

Let me also say at this stage that all our other products:

The legacy ones except videos which is slightly down primarily due to euro impact are stable and showing growth. Clearly, the legacy products are showing stability and maybe a little growth whereas Challenges Arena and ONMO will get more and more growth.

I would like to mention something on the cash on the balance sheet and fund-raising. While we have invested on product development, our intent is to ensure that the big spending on the D2C marketing will happen post our fund-raising at an appropriate time. Until that time, it is our endeavor to keep enough cash which will get augmented through our profitability which is likely to get better in the coming quarters. With this, I would like to hand over the call to Asheesh to talk more about the financial performance.

Asheesh Chatterjee: A warm welcome to everyone on this call. I will share the key highlights of our financial performance for this quarter ended June 30th, 2022. We reported revenues at INR 141 crores, a growth of 5.9% on a sequential basis and 4.4% on a YoY basis. The growth was primarily driven by Challenges Arena, tones, games, and infotainment. The traditional business, as Sanjay mentioned, continues to be stable and growing. We today have approximately 100 active operator relationships globally, which will form the base on which new businesses like Challenges Arena and ONMO will be scaled up in the coming quarters.

On the cost front:

In Q1 FY23, there was an increase of 15.3% in manpower cost sequentially. This increase was primarily due to investments on upscaling. Our marketing cost grew by 15.7% quarter-on-quarter primarily due to increased investments in new products and other digital products. EBITDA stood at INR 7.8 crores with a margin of 5.8% for the quarter. The drop in EBITDA was majorly due to increase in marketing investments. We should see improvements in margins as revenues from Challenges Arena scale up and marketing costs normalize.

Our profit after tax was INR 4.1 crores with a margin of 3%. From a product perspective for Q1 FY23, Challenges Arena, tones, and games saw a good uptick in segmental revenues as well as contribution to the total revenue on a sequential basis. While videos was stable, the small decline is only on account of FX conversions.

In terms of geography:

India registered the highest growth of 23.6% on a quarter-on-quarter basis during the quarter. As Sanjay mentioned, I would echo the same that going forward, we would expect to see a decent growth in revenues led by both new products Challenges Arena and ONMO. We expect to have agreements with 46 customers by quarter 2 FY23 for Challenges Arena. In terms of our balance sheet, our DSO was at 134 days. We have a strong cash balance on our book at INR 120 crores. During the quarter, we have incurred expenditure on product development to the tune of INR 15 crores. We will continue to invest behind our gaming business, strengthen our position on the D2C gaming market as well as continue our foray into the B2B space. A lot of operating metrics and data have already been shared in the presentation deck. I am sure all of you have access to the same. Some of the metrics are being shared for the first time to give more visibility for the scale up of Challenges Arena and ONMO. This may not be given in each quarter.

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

Francois-Charles Sirois: We shared with you last quarter the vision that we have, which is very important, is to grow to 200 operators with our gaming platforms. And we have geared up the whole company to get to 200 operators. Just for you to realize, 200 operators one of our famous board members Sanjay Kapoor rightly said that he has never seen a product in the telecom industry get 25% penetration. There are about 800 operators in the world but he really believes we are going to do it and I believe we are going to do it. If you look at our numbers that they just on Challenges Arena, we don't give out normally the quarter 2 projections when we are in quarter 1. In this case, we have done it once just for you to understand the numbers and where we are going. But we project our 46 signed contracts going in Q2 and while in Q2, we acknowledge Q3 and Q4 are coming up. And really just to be live with 12 customers in 1 quarter, that's what we aimed to have in Q2, it's very big. And obviously, the key is to continue the setup that we have today. We are all set up operationally to be able to deliver 12 operators a quarter. This isn't just for Challenges Arena because we are doing the same with ONMO. ONMO now has 12 signed deals 3 live but signing a contract is one thing, getting set up and launching an operator is a lot of effort, a lot of costs, and a lot of marketing launches. When you look at our results today and you see the revenue growing but you see the expenses growing and you look at it and profitability goes down. It's normal guys. I just want you to understand the more we are going to sign and the more we go live, the more effort it is. It takes us 2 quarters to get back the investment on a launch with Challenges Arena, but after that, we get the profitability.

We are all geared up to go to 200 operators. That's not going to stop. That's exactly what you see in our quarter 1, quarter 2 it's coming, and all the next quarters and to get to 200 by 2025, i.e., in next 12 quarters. The beauty in this model is that you will see profitability coming up pretty fast so that we are really excited about this. We have a double gaming product strategy towards the operator. It's a great strategy for us also to get with our own servers. The fact that we have a tone business that has been there for 20 years having 3,000 servers installed on tones into operator, we have an awesome footprint and hyper-specialized team to deal with operator and maintain server which makes us for edge computing as I mentioned last time. There is no shortcut in the woods. To do edge computing which we need for load it and see especially for gaming, you need to install your servers into an operator. Even Amazon can just take the shortcut and say I am Amazon. They have to go operator 1, 2, 3, 4, 5 and deploy their own servers in the operators' network. That's exactly what we have as a competency and that's what we plan to

100% leverage that the whole tones department leverage on installing gaming servers for ONMO. The Challenges Arena service is way easier to install than the ONMO service. That's why it is in front, but you see most operators that we sign when you look 38 today, 46 projected by end of Q2, most of them want to sign ONMO also. It's a double product strategy and they want to install servers in their network also. It's honestly an awesome strategy that we have, really lucrative also all the way and that's why we are focused.

As I promised you, also we will have the best mobile gaming service. I want to come back to Nir. To have the best gaming service, you need to have the best team in the world. I am really thankful that Nir has accepted to join. He is here in my office with me. Just for you to understand Nir was head of mobile gaming Take-Two. Take-Two just did the $12 billion acquisition by Zynga and Nir was involved. Nir has been involved in gaming in the last 12 years at all the big companies. King Activision got sold to Microsoft. He was involved in all the mobile gaming back then. He has done smaller companies like Dots which he sold to Take-Two. He has done smaller going big. He has done very big going even bigger. If you want to have the best gaming service, you need the best team and I thank Nir for joining out of New York. He knows all the best guys in the mobile gaming industry that can join us also. So, we will have a very good ONMO office in New York. And I can tell you we are shooting very high, so I am quite excited.

With this, I am going to open the floor for questions.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. We have the first question from the line of Niraj Mendiratta from Arfa Family Office. Please go ahead.

Niraj Mendiratta: I have a few questions specific about the margins. 1) We have seen EBITDA margins actually have been falling over the last few quarters primarily because of the increase in marketing spend as well as the employee cost. We have seen the EBITDA margins coming down to around 5% to 6%. Historically, it was in the range of around 12% to 15%. What do you think would be the sustainable EBITDA margins going g forward? 2) In the Challenges Arena, you have guided for EBITDA guidance of 30%. Can you provide some EBITDA guidance for the ONMO business also? 3) What is the cost of acquisition for each gamer and the repeat rate for the gamer?

Sanjay Baweja: Clearly, like you said, there is this investment that we are making in marketing expenses, especially together with the operators all across the globe. So, you are right. For example, we had 100% expense growth as far as marketing is concerned if you were to compare it to last year, year on year, and about 15% quarter-on-quarter. While this will stabilize going forward, the revenue growth will continue. Our aim is that you will very quickly start seeing the numbers that you quoted in terms of the EBITDA percentages. Challenges Arena like you said, is at good and on a mature state, gave 30%. Similar will be the case on a mature state for the B2B side of ONMO. Clearly, that's what our focus is to get to that level. So, we will see sustained new revenue getting added which is much more profitable than our existing products. The change in the gross margin you must be seeing already. We believe that will get further accelerated over the next 3 quarters, let us say. Come our exit for Q4, you will have a very different set of financials to look at in terms of profits.

Niraj Mendiratta: Any update about the cost of acquisition for each gamer and the repeat rate for the gamer?

Rahul Raina: Basically, as we have made a debut where we have started with awareness campaigns at this stage like the last complete quarter was dedicated to create awareness among users, bring in a lot of visitors to the products. We have been tracking cost of acquisition but it is initially being tracked at the registration level. So, initially, we were at close to $1.3 plus range per registration and we have steadily been able to bring it down that and we are continuously focusing on to bring it further down.

Sanjay Baweja: That's the D2C side. As far as B2B is concerned, that's a very different matrix altogether.

Biswajit Nandi: On the B2B side, we are kind of global company present with this product with Challenges Arena in roughly about 17 to 18 countries. It varies from country to country – the acquisition rate for our players. It will vary from let us say average if we take across Asia, Middle East, and Africa, it will be close to a dollar while as in Europe, it would be in the range of €12 to €15. Especially, in India, it will be about INR 50.

Niraj Mendiratta: Any guidance on revenue contribution from India, maybe in the next few years, since now you are actually focusing on the India business primarily?

Sanjay Baweja: No, our focus is global. India is actually now a smaller part. It is about 15% to 17% of our overall revenue. And like we mentioned and we gave you the geographical breakage, primarily we are global. So, India will remain a small part. India is doing well; we must add the Indian customers are doing well and we are therefore experiencing good growth in India also. But from an overall perspective, it will remain in the same ballpark. We don't see any significant change happening because we believe that global customers will continue to contribute in very large number as far as our revenue is concerned.

Niraj Mendiratta: For the OnMobile D2C business, what is the kind of money actually which you plan to raise and what would it be through the equity issuance? Any guidance on that?

Sanjay Baweja: We are flexible in our approach. And at an appropriate time, we will let you know. But the overall thought process or strategy in this is that we will expend a significant portion of money only once we raise the dollars for the D2C business. As of now, the focus is B2B where we don't need funding to grow from an investment perspective. As far as our product development is concerned, that will continue with our own funding. To that, we don't need any funding. We will continue to fine-tune our products. We will continue to do growth business as far as B2B part of the ONMO business is concerned and which like you said is scaling up very-very well. But whenever we do this, we will come back to you guys at an appropriate time in terms of quantum and the timing of it. We are talking to various stakeholders but we will come back with the quantum when it is appropriate.

Niraj Mendiratta: One last question. Is there any impact of the negative news on the GARI token collapse on the investment in Chingari? Do you think this has caused any kind of provisions in the diminution of the investment in the coming quarters?

Sanjay Baweja: No, on the contrary, while we cannot divulge the numbers that they are looking at, but they are looking at the next round of funding going forward and it will be at a substantially higher multiple of number at which we have invested. Let me not say beyond that, but we will not have any hit. There is no question of hit. It is a question of how many times the value will increase.

Niraj Mendiratta: So, this GARI token collapse will not have any impact?

Sanjay Baweja: It is not that we are aware of as of now.

Moderator: We have the next question from the line of Kamal Sodhi, an investor. Please go ahead.

Kamal Sodhi: One of the things that strikes me most times is that companies with great transparency and outlook towards integrity, etc., do declare some numbers of acquisitions, sales, etc., on a monthly basis. For example, the automobile industry, the telecom industry. 1) Since you are getting into this business where you have kept an ambitious target of targeting 25% of the global telecom operators and you now have some, I would say, reasonable success within a short span of time, don't you think it is time that you started showing a monthly input to the universe out here which says that these are the numbers of contracts signed, etc., or active users or paid users or subscriptions received, etc.? 2) We have noticed that in the past year or so, there has been a great amount of traction as far as investor needs are concerned. I would ideally like to believe that the information that you give them is already existing in the public domain through your quarterly investor call. However, it would be nice to see you also publish the presentation through the exchanges that is made to these investor/analyst meets. I don't think this is difficult for an organization that transpires to be a global company with reasonable success coming to OnMobile Global in the future on the platform side. And my own experience over the past 10+ years as a shareholder is that you have always been evasive and shy in terms of giving guidance and even when Rajeev Pancholi was around and the gentleman before him – I don't recollect his name – you used to talk about giving EBITDA guidance for the next quarter and that happened for a quarter and then it fizzled out. You never really upped the game as far as your ability to give guidance is concerned. If you are not able to give guidance, at least can you publish a monthly report as I requested under my point #1? Your comments please.

Francois-Charles Sirois: I just wanted to be clear on this one. I don't know if you are reading the same presentation that we give out to the market, but it is very clear on slide #7 of the presentation now on Challenges Arena we have actually given projections for next quarter on how many net active subscribers that we are going to get, 2.57 million projected.

Kamal Sodhi: Let me interrupt you here. I have gone through the presentation and you are right. It's available on a quarterly basis. I am asking for a monthly report after the month is over. Like the automobile industry or the telecom industry issues to their shareholders and the exchanges, etc. So, this way you know that "Yes, the company is doing something in that direction."

Francois-Charles Sirois: I am sorry to differ with you. I have many public companies here in America like Stingray for example, a music business, and we have subscription and they never give out monthly, quarterly. I want to be very transparent on a quarterly basis but on a monthly basis….

Kamal Sodhi: Let us not get into that kind of a subjective argument who does it, who does not. I think the organizations that want to really stand out and really want to show the universe what they are made up of in terms of mettle, they would consider it. I would not like to get into a subjective conversation as to why a number of people do it and why number of people don't do it. It's the requirement if you think that your company is geared to meet and your company wants to move to the next level of transparency, it is up to you.

Francois-Charles Sirois: I just want to come back on the information. We are going to give out the same information for Challenges Arena and ONMO when we sign up operators and we are giving out the number of contracts signed, the live customers, and then the number of subscribers as a basis quarterly or monthly but is that okay with you or you are missing something else that you think….

Kamal Sodhi: It's not my requirement. The reason, FC, I made this request is because of two reasons primarily. I am happy to see a lot of investor companies coming and meeting you and you going out and reaching out to them and you have a certain target in mind for a marketing expense of $100 million over the next few years for which you are raising. Hopefully, you would raise private equity for your subsidiary very soon, and I wish you all the best as a shareholder for more than a decade now. It just gives a lot of your investors, the stakeholders a lot of confidence when the month has passed and on the 1st or the 2nd of every month, you come out with a number saying ONMO so many acquisitions/agreements signed, Challenges Arena so many acquisitions/customers bought on, so many made live. This is just like a monthly update. We are not asking you for something you haven't done. This is something that you have done, delivered, banked, and are just informing us on a monthly basis, not on a quarterly basis. It just raises your levels of transparency out there. Frankly, I don't want to say this because this is something way back from the past but the past has been very full of integrity and I am talking about Arvind Rao and the period thereafter. This is not pointer to you. So, I think it's time you reversed the cycle a bit.

Sanjay Baweja: We will think through this but as we stand today, frankly, very clearly, we would like to give quarterly data but it's a good suggestion. We will think about it. And as far as the presentations, etc., to the investors is concerned, when we meet them, we actually take them through some of the things that we have uploaded on our site. So, we don't necessarily go any further than that. We generally talk to them about our vision which we have very categorically…. in fact last time put on our website clearly and in fact FC talked about it in terms of 200 customers and all that. I think, very clearly, when we talk to the people, we tell them what is our game plan and where are we aspiring to reach. In fact, FC put it out in his call also. The intention is to give everybody similar data. We don't intend to camouflage anything or give anything differently. We openly talked about the mature state profitability of the new products. We have said it here. We will say it to the investors that we meet. They do their own mathematics like you are wanting to do based on the monthly numbers, everybody does their extrapolation in that sense and does their call on the investment criteria, etc.

Clearly, we take your point. We will think about it, but like we said, quarterly we will definitely give, I don't know whether you have been attending our calls regularly, but over the past at least 8-9 quarters, we have tried to increase the transparency level and we will continue to do that. Because there is very less competition involved in this, we don't necessarily want to immediately divulge some of the numbers. I will be honest with you.

Kamal Sodhi: I have been attending the call for around a decade now.

Sanjay Baweja: Good Kamal, that's very good.

Kamal Sodhi: The point here is, I believe that you are not very confident as an organization in giving guidance. A monthly report card is not exactly a bad idea to reach out as a communication. It's not about whether you divulge anything concrete or specific to only a handful of investor/analyst meet, it's about your intent backed by demonstrated behavior in bringing everybody on the same page. Like the fact that you talked about targeting 25 telecom operators globally is a wonderful news. And this is the first time I am hearing something like that and that makes me want to engage with you because I have been a very quiet listener, I would say, for at least four out of the five calls that I attend. I just come, attend, and walk away.

It's about you. Are you giving us the confidence is the question. Yes, I am sitting on it for 10 years, I make my money there is no doubt, but I might want to buy more in the company say versus some other investments that I am considering. When a Maruti or Tata Motors or Mahindra & Mahindra or Airtel or Vodafone or Jio, even retailers nowadays give their monthly sales numbers. We are not asking you for sales numbers. We are asking you just consider putting out a dashboard out here on a monthly basis of what you have achieved – ONMO signed on, ONMO went live, Challenges Arena signed on, went live, new strategic alliances, whatever you think you want to do. But at least that's a form of an engagement and that's like the lowest hanging fruit you have, right?

If I have to really get into a subjective argument and sell you the idea of how to engage with somebody who is out there looking at upping their investment or coming in, I think this is a great way to build some credibility at least. It shows movement, it shows progress, and you got some good things going. Why wait for a 90-day cycle to come on a call and then share a PPT and then reiterate that on a call?

Sanjay Baweja: Point taken, Kamal. We will consider that.

Moderator: We have the next question from the line of V P Rajesh from Banyan Capital Advisors. Please go ahead.

V P Rajesh: Congratulations for a good set of numbers on Challenges Arena. The trajectory looks extremely promising. Just a question on the ONMO D2C side. I think you had mentioned that you will start giving us separate P&L for that. If you can just share some numbers as to what was the marketing cost which is embedded in this for just ONMO D2C.

Sanjay Baweja: As of now, we are still in the beta stage, and therefore, the separate P&L is not happening as of now. The moment the D2C revenue starts to happen, we will start giving that data separately like we said. As far as marketing is concerned, there is not much. Like we said, we have done an awareness campaign but that is not something we would like to talk about. Overall numbers you have seen; these are small numbers, maybe between INR 1 and INR 2 crores.

V P Rajesh: Majority of this is focused on Challenges Arena and ONMO?

Sanjay Baweja: Yes, but mainly Challenges Arena is the biggest number so to say.

V P Rajesh: Sanjay, if I heard you right, you were saying by Q4, you see the EBITDA margin turning around. Did I hear that right?

Sanjay Baweja: Yes, you heard that right. Movement will happen every quarter, but Q4 you will see the numbers that we saw some quarters away, maybe 3-4 quarters before this or 5 quarters before this. We will start seeing those numbers back and then obviously it will get better because as more and more of Challenges Arena and ONMO revenue comes in, the profitability numbers on an overall basis is set to improve.

V P Rajesh: On the D2C side now that we have Nir onboard, is there a change of strategy from how we were approaching the market for scaling up D2C? Any initial thoughts?

Francois-Charles Sirois: No, honestly, there is no change of strategy. The goal is to have the best gaming service, and when I say the best, I mean from the end-user perspective the most engaging where they spend the time, they like it, they involve this. A lot of features coming in on that's changing. We will talk about cost of the service engagement but all the live features or social features that not just us want but the operators are asking for which will go to our 200-operator road map, and most operators that have signed contracts right now and all the ones coming, they all want to see the social features and that just for you to understand social feature is that the day when you play a game, you only see your gameplay. In the coming months, as soon as anybody plays a game, they will be streamed live and you will be able to jump on anybody's game and see their live game on your phone and eventually co-play live with them. A lot of interaction coming along which will change the whole engagement, the whole matrix. That's exactly why Nir is now being onboard to get the best in the industry to make sure we have the best gaming service and keep in mind the D2C is the exact same one that we sell to operator. In the past when we used to have operator-based services, they were different. They were white labeled and the actual service was not the same for each operator. In our case, the D2C service is exact same service that we offer each operator and it's worth our brand. And actually, the subscribers that we acquire on, operators will be able to play with other subscribers from other operators or from the D2C. That's why it is so important to really have the best service as a core on ONMO and that's the strategy here.

V P Rajesh: On the cash side, is there a minimum cash that you want to have? Because we see each quarter it is coming down. What is the minimum cash you want to make sure you have on the balance sheet?

Asheesh Chatterjee: We already have a decent INR 120 crores on the balance sheet and we always keep a healthy balance of around $10 million on the balance sheet. We will soon start having good amount of EBITDA as Sanjay explained. Our B2B business is not going to require significant amount of cash. That is just working capital. And then, we will generate enough money in the coming quarters to largely fulfill our cash needs.

Moderator: We have the next question from the line of Pulavarthi Sai Kiran from Pulavarthi Advisors. Please go ahead.

Pulavarthi Sai Kiran: I am referring to the slide #7 of the presentation. If I look at on the left-hand side, you have got gross adds during the quarter is almost like 2.32 million subscribers. It is really healthy even if I look it on a quarter-on-quarter basis versus 1.85 million in Q4, but if I look at the net active subscribers, the growth has been very weak – just moved from 1.33 million to 1.66 million. Is there any challenge at the retention side or why is this gross additions not adding up to the net active subscriber growth?

Biswajit Nandi: Today, the only mode of payment for the users is their telco wallet either the prepaid wallet or their postpaid bill. That's where we charge the user to use the service. Since most of our business right now on Challenges Arena is in the emerging markets of Asia, Middle East, and Africa, most of our customers are on prepaid. So, what you see on the left-hand side of the gross adds is what subscribers have added for the quarter and the next graph tells you what customers you have retained for that quarter. And the difference that you see, 95% of that users have dropped out because of not able to pay for the service because they don't have enough balance on their wallet. And only 5% voluntarily deactivates the service. So, it is primarily a payment issue rather than users voluntarily deactivating the service, and we are looking at options to how to solve that problem. For example, one of the options could be that we could integrate standard digital wallets in different countries where if the user doesn't have any balance on their telco wallet, they could pay from their digital wallet. That's an option that we are evaluating. That's an important area for us to improve and we are working on that.

Sanjay Baweja: Just to add to what Nandi said, this is something that we have to work together with the telecom operators. A lot of times, the telecom operators insist that the usage has to be from their wallet, but now, we are seeing some traction, a couple of customers were talking to us saying the consumers can actually go ahead and use any digital wallet. For example, in India if we were to give an example, suppose somebody has a PhonePe or somebody has a Paytm, then they could use that also to make payment for our service. That's something that we are exploring. Hopefully, we should see some activity there where these things open up and then of course this element of people going off because they don't have money in their telecom wallet will not be there.

Pulavarthi Sai Kiran: Just one more question. You guys have actually guided for a very strong revenue growth in the coming quarters. If you can just help us understand the cycle of revenues coming into OnMobile from the customer sign-up to become active add to revenue growth. How does this go? If you can just help us understand, that will be really helpful as well.

Sanjay Baweja: From a customer's perspective, there would be people who will subscribe to the service, there will be an element which will come as a revenue to the telecom operator and there will be a revenue share model where we will get our share. That's essentially it. From the time the customer subscribes to it, our revenue flow is immediate.

Pulavarthi Sai Kiran: Sir, I am just asking, say for example, you have given very good data in terms of the next quarter or probably you are saying that 38 active customers will be there because you already have 26 customers as of June 30th and 12 customers have been signed and they might go live. I am just trying to understand, once they go live, how the revenues will start to move in? In the sense like in the first 2-3 months, how much revenue might kick in or if any drivers for that revenue? If you can help us understand that that will help us to model the numbers.

Sanjay Baweja: It will be difficult for us to tell you because 12 customers going live and somebody will go live in July, somebody in August, somebody in September. By the end of September, we expect twelve. So, revenue could be for 2-1/2 months, could be for 4-1/2 months, could be for 15 days, we don't know yet. So, it will be wrong on my part to give you a sense that you should model it on that basis. I would rather say that the modeling if at all you can take an average number of say that they will be there for half a quarter and then one-half of that will be revenue, but what I think is important is it sets up so beautifully for the next quarter. For example, today when we have 20 customers at the end of June, all twenty of them will give us revenue for Q2, and therefore, when we say that by Q2 end, we will have 32 customers, I think the way you should model is saying all thirty-two will contribute for Q3. That's the better way of doing it rather than trying to nitpick in terms of "Oh! Somebody will contribute for half the quarter; somebody will contribute for only 15 days." So, I would rather like you to do that way.

Pulavarthi Sai Kiran: I mean to say that the revenues are highly dependent on the net active subscribers. Is it a fair assumption to make?

Sanjay Baweja: That's correct. The gross adds also, like Nandi mentioned, the moment somebody comes in, he will subscribe to a month and then maybe gets churned out when the month is over. So, this will be a rolling thing where the subscriber comes in, puts in money for a month or two and then at any point of time if the money in his wallet is not there, then he would churn out. This is an ongoing cycle. The moment people come in, they pay for it.

Moderator: We have the next question from the line of Abhishek Banerjee from ICICI Securities. Please go ahead.

Abhishek Banerjee: Sir, just one question from my side. Would you give us some clarity on how the currency movements in the last quarter have impacted your revenue and bottom line?

Asheesh Chatterjee: Largely, the Europe business was affected on account of the euro depreciation versus the rupee. I think that is the marginal impact, but as the European crisis improves, that should basically get nullified in the coming quarters. So, we had roughly a small around a INR 2-crore dip on account of forex in the video part of the business.

Abhishek Banerjee: Also, in the Challenges Arena, the contracts that you have with your operators, those are denominated in local currency?

Sanjay Baweja: Most of the people would be on local currency. Various countries, people will have local currencies because that's what…. Please understand that we are on a revenue share model most of the time. So, once they earn in the local currency, they will pay us from a share perspective that. So, mostly we are on the local currency model.

Abhishek Banerjee: So, there would not be any higher translation there because most of the currencies have fallen more compared to rupee, right?

Sanjay Baweja: Yes. We have already seen the brunt of it. Let us hope things get better from here.

Moderator: We have the next question from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: What I would like to understand is what is the break-even level of revenue on Challenges Arena? At what scale do you break even? Basically, what is the revenue range at which you start making the intended EBITDA margins?

Sanjay Baweja: Let me say that when we launch with a particular telecom operator, I think within a couple of quarters, we start making it positive EBITDA. Let me put it that way. And that's the whole point. Now that we have got a substantial base, the additional numbers of the new customers coming in just continues to add and overall profitability continues to grow. So, I wouldn't call it in terms of per subscriber or something like that, but I would say that towards the end of second quarter, we start making money.

Sunny Gosar: In terms of the cost structure, what would you ascribe the major cost heads? Because, a lot of the content development has already happened and it is already there. So, incrementally, on deployment of a new customer, what are the major costs that are involved?

Asheesh Chatterjee: The main cost is marketing and that also is largely upfront when we acquire the customer and it starts normalizing, as Sanjay mentioned, immediately from the second quarter itself. So, it's largely marketing. Content cost as we add more operators and some of these costs will start getting amortized over a large customer base. So, that's not the bigger cost, it's only marketing.

Moderator: We have the next question from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Just wanted to understand, in terms of your legacy business, what sort of growth are we looking at this year? What are the reasons for margin deterioration despite revenue growth quarter-on-quarter? I think last quarter, you had guided for improved revenues and margins for FY23. I just wanted to understand if you can touch upon that?

Sanjay Baweja: From an overall perspective, like we said, we continue to maintain that our revenue growth will happen. And like I said, towards the end of the year, we will see profitability improving and we maintain our position as of now. The robust growth in revenue will continue. We have seen Q1. In fact, we have given you lead indicators of Q2. That will help you look at Q2, Q3, and Q4 in terms of what is the kind of trajectory we are expecting in terms of revenue growth. Profitability, like I mentioned, as more and more customers come in, we will see robust increase because if you notice, you might have seen the gross margins already started to look up. If you have seen, we were at about 48.89% or something like that and we are now at 51.5%. So, clearly, that improvement is happening. It will further increase over the coming quarters, and therefore, in Q4, that would be a different picture altogether.

Mithun Aswath: The other question I had was, on the ONMO business, there was a talk of you housing it separately and maybe D2C play that you are embarking upon on that. So, just wanted to understand what are your thoughts on that. Or would you focus on the operator-level ONMO opportunity that you seem to be looking at right now? Just wanted your take on that because that would have implications on the P&L as well. If you could just highlight it.

Sanjay Baweja: The entire business actually per se the IP for that business and otherwise is going to be housed in the separate subsidiary, you are right. That is out of New York. ONMO Inc is the company that we have there in the US. That is correct. But our business is such that it runs all across the globe. A lot of times, the revenue accrues in the local subsidiaries. So, we look at business as a business vertical. Entities don't necessarily differentiate or mean any difference for us. Our focus is to look at businesses in their vertical analyses and not necessarily at the entities. Entities have become relevant now and that is only that one entity which is ONMO Inc which is in the US which will really house the ONMO business as a whole, and whatever happens between let us a subsidiary in Africa versus the US, there will be a mechanism of transfer pricing which will be very transparent and robust which will enable the profitability to be housed in where it appropriately belongs. But at the global level, at the composite company level, it will not make a difference at all.

Mithun Aswath: My question was more on the funding that you require for this D2C play that you are looking at. At the ONMO level, where are you in the journey towards that? Cash pile obviously quarter-on-quarter is coming down. So, how would you fund that? Are we close to maybe unlocking value there and trying to get some investors because it has been two or three quarters since we have spoken about that. So, just wanted to know whether we are still embarking, maybe pivot towards more of B2B play even within the ONMO opportunity?

Francois-Charles Sirois: I just wanted to say that we have so much traction on the B2B side and it is the same product. So, marketing-wise, there is a big gain of launching with operators first, getting subscribers, and it's our same brand, right? As long as the product is really good. Investor-wise if you look at this and we were trying to fund only the D2C side, but to be honest with you, the investors look at this and they say, "Wow! You are making so much money on B2B. We want to be part of B2B side." Now, it becomes a matter of matrix. How do we account and that's why Sanjay was talking about ONMO Inc and how do we do now that the cross between the B2B which is provided by OnMobile versus a pure D2C player. Because, right now, we are having a very particular model in the sense that it's really a B2B and D2C play combined. To be honest with you, we are discussing with investors right now where do we split the value and how should we do a deal and what's the quantum, how much money should we raise them and for what. That's the discussion right now.

Sanjay Baweja: We are actually very flexible in our thought process because a lot of it like FC said, the investor community is also keen to take a part of this substantial gain that they see coming up in the B2B side of our business and somebody would be ready to invest in D2C but they want to have the gain of B2B. So, we are looking at that and there will be flexibility from our side depending on how the investor is comfortable.

Mithun Aswath: Will we see any sort of monetization in the couple of quarters? Is there any timeline that you have in mind?

Sanjay Baweja: We are working towards it but don't want to put in a date to it, but yes, we are working on that.

Moderator: We have the next question from the line of Naman Bhansali from Perpetuity Ventures LLP. Please go ahead.

Naman Bhansali: Two quick questions. The first is on marketing cost. How much is the marketing cost as one-off as I see few customers are going live? My second question is on ONMO B2B business. When can we expect to see revenues kick in? Because, I think as you have guided, you would provide some disclosure on the ONMO, and is this a case wherein we are not seeing the revenues to be scaled up or we are waiting for proper disclosures for ONMO?

Asheesh Chatterjee: The ONMO revenues have already started, although and we will see more significant jump in those B2B ONMO revenues in the coming quarter as Sanjay had explained. In the marketing cost, the entire increase that you see from a YoY perspective is largely on account of Challenges Arena and ONMO. So, it's basically the investment behind these new products, which is also adding to the top line.

Francois-Charles Sirois: In terms of the disclosure, starting next quarter, you will see that the ONMO revenue is exactly the same split that you see for Challenges Arena. So, you will be able to compare the ONMO growth as on the B2B side compared to Challenges Arena.

Moderator: Ladies and gentlemen, that was the last question and we will now close the question queue. I would now like to hand the conference over to the management for closing comments. Please go ahead.

Francois-Charles Sirois: Thank you very much for joining on this call. Again, I just want to reiterate that I am quite excited about our plan and we are gearing up the whole company to get to our 200-operator plan by 2025 and that's what you will see in the coming quarters.

Thank you all for joining the call and I look forward to see you. Next call is going to be in the second week of November. So, thank you all and see you in November.

Moderator: Thank you members of the management. 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.