"OnMobile Global Limited Q2 FY23 Earnings Conference Call"

November 09, 2022

MANAGEMENT: **MR. FRANCOIS-CHARLES SIROIS – EXECUTIVE CHAIRMAN**
MR. SANJAY BAWEJA – MANAGING DIRECTOR AND GLOBAL CEO
MR. ASHEESH CHATTERJEE – GLOBAL GROUP CFO
MR. NIR EFRAT – CEO OF ONMO
MR. BISWAJIT NANDI – SENIOR VP, GLOBAL SALES
MS. RADHIKA VENUGOPAL – VP, FINANCE

Moderator: Ladies and gentlemen, good day, and welcome to the OnMobile Global Limited Q2 FY23 Earnings Conference Call. As a reminder, all participant 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pratik Jagtap from Ernst & Young, Investor Relations. Thank you and over to you, Mr. Pratik.

Pratik Jagtap: Thank you, Tanvi. Good day and welcome to the Q2 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; Nir - CEO of ONMO; Biswajit Nandi - Senior VP Global Sales; 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 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 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 statements to reflect future or likely events or circumstances.

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

Sanjay Baweja: Thank you, Pratik. Hello and good day to everyone. Thank you for taking the time to join us today. Hope you're all doing well. The results and presentation are already hosted on our website, and hopefully, all of you had a chance to look at that. As usual, I'll give a brief update on our products and business and then Asheesh will take you through the highlights of our financial performance.

Let me begin by updating you on Challenges Arena. There, that's one product where we continue to witness considerable traction for Challenges Arena in terms of customer acquisitions during the quarter. In fact, by November 2022, we have 17 new customers who have agreed to our terms for Challenges Arena, taking a cumulative total customer agreement now to 55. This, as we speak currently, our aim is to get to 58 which obviously is our target for the quarter. Out of these, 33 are already live as on 1st of November 2022. Coming to the revenue from Challenges Arena during the quarter, it grew in line with the number of customers that went live in Q1 FY23.

So, there is that lag, we went live from 16 at the start of the year to 20 at the end of Q1 FY23, an increase of 20%. The revenue also for Q2 FY23 for Challenges Arena has gone up by about 20%. Having said that, the revenue increased by more than 7x year-on-year basis and it has grown by 14x in last 6 quarters. This incredible customer traction and acquisition needless to add will lead to significant revenue growth over the coming quarter and thereafter.

Just to add a data point to this phenomenal growth, our October CA revenue already has shown us a growth of 35% over our average of Q2. So, we are seeing that traction in terms of revenue already in Q2 & Q3. November and December are bound to be bigger because we've launched a few customers have gone live over the last 3 to 4 weeks. So clearly, we expect the revenue growth to be significant.

We expect this momentum to continue, and these cumulative agreements are likely to touch about 58 by the end of Q3 FY23 and driven by successful outbound sales efforts resulting in these increased sales for the entire year and beyond that.

So let me also give you, the geographic split of how our customers is as of November 2022, so we've got 22 customers in Asia, followed by about 20 in the Middle East and in Africa and 6 in Europe, and 7 in Latin America. So, we are getting customer confirmations from across the globe. The very good aspect of this is that out of these 38 are new logos, which effectively is about 69% which demonstrates our achievement in terms of sales as well as our future opportunities perspective in terms of cross-selling to other, which has actually started, and I'm going to talk about it when we talk about the Tones part.

In terms of usage and actual consumers, the cumulative gross based subscribers at the end of October 2022 stood at 10.5 million as compared to 6.7 million last quarter, a growth of 56.7%. We are targeting to touch almost about 14 million consumers by Q3 FY23, Challenges Arena's net active base also doubled every quarter of FY22 and as of November 1st, 2022, the net active days increased to 2.3 million from 1.66 million at the end of Q1 FY23. We are targeting to touch 2.9 million consumers in Q3 FY23, which is an addition of over 1.2 million active subscribers from the last quarter.

So, subscribers are which define the revenue eventually, we are seeing considerable traction and people coming to play and be active on our platform. Also, to achieve the base of 1 million active subscribers, we almost took 4 quarters, 1.2 million in Q4 of FY22 earlier. And now we have achieved the mark for the next million in only seven months, standing at 2.33 million as of 1st November 2022.

We will continue to try and increase the next 1 million within 2 quarters, showing our strength and success in Challenges Arena. The current momentum clearly is a lead indicator for the revenue growth we are likely to experience would like to clarify there again that this is our subscription business and as we continue to add subscribers, revenue will grow exponentially. In fact, we are confident that Challenges Arena will significantly increase our revenue in the coming quarters.

Now let me also talk about the profitability of Challenges Arena I had mentioned around the last quarterly call, right now we are in the investment phase, and we are investing in the growth through disproportionately high marketing spend, especially in the new geographies our operators there that we are continually growing live with.

We anticipate that this will stabilize, resulting in an improvement in profitability from next quarter onwards and there will be a gradual increase in terms of profitability. You may all have noticed that our gross margin on a year-on-year basis has already gone up by about 200 basis points and like we've said earlier, for Challenges Arena has a significantly higher EBITDA as compared to our existing products. We expect the product to stabilize soon in 2, 3, 4 quarters and generate an EBITDA of more than 30% thereafter.

Coming now to ONMO. As informed in our last call, ONMO B2B has started generating revenue for us from last quarter. Now we have in fact, 18 customers who've given the confirmation for this segment, out of which actually as we speak, four are already live and the revenue has started witnessing a growth, 3x over a quarter-on-quarter basis. So, from Q1 FY23 to Q2 FY23, it's up 3x, although the base is small. We are confident of generating high B2B revenue in Q3 FY23. We are, again, in this also continuing to see very strong traction among the prospective customers.

Let me also update on Tones and Video. On Tones, due to some temporary issues with a couple of large customers, we've had a drop of revenue by 4.9%. However, that issue is now resolved and behind us. So, this was a temporary blip. It was a hiccup in that sense. We are now progressively getting better. In fact, we have added two new customers in Tones, one is already live and the other is likely to be live within this quarter. We're also close to signing up two further customers for our Tones business, thereby giving us reasonable confidence of growing the Tones revenue.

Video being largely a product with euro revenue was hit by the currency, the euro in a big way quarter-on-quarter and year-on-year in fact, it de-grew by 2.8% for the quarter. The forex impact itself was about INR 16 million quarter-on-quarter and INR 61 million year-on-year. If we were to have a constant currency, we would have had a year-on-year growth of 4.5% and H1, we would have had a 6.5% growth on the Video product, while nobody can predict the currency, we believe that we've seen the worst of it already.

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

Asheesh Chatterjee: Thank you, Sanjay. A warm welcome, and thank you, everyone, to join us on the call. I'll share the key highlights of our financial performance for this quarter and half year ended September 30th, 2022. In terms of half year FY23 performance, we reported revenues of INR 278 crores, a growth of 2.2% on a YoY basis.

Gross profit grew at 6%, the growth was primarily driven by Challenges Arena, Games and Infotainment. On the cost front, in H1 FY23, there was an increase of 9.4% in manpower cost on a year-on-year basis, this increase was primarily due to onetime cost for staff optimization and our ongoing investments in increasing our capabilities in key areas.

Our marketing costs grew by 93.7% year-on-year, primarily due to increased investments in new products and other digital products. EBITDA stood at INR 8.1 crores with a margin of 3% for H1 FY23. We witnessed a short-term decline primarily due to dive in marketing cost and manpower cost for product development. These investments will drive the future growth and margins in the coming quarters for FY24 and onwards.

Operating profit is at INR 3 crores with a margin of 1.1%. Our profit after tax is INR 4.7 crores with a margin of 1.8%. In terms of Q2 FY23 performance, we reported a revenue of INR 137 crores, witnessing a degrowth of 3.1% on a sequential basis. However, we are flat and stable on a year-to-year basis. This degrowth was primarily due to change in charging mechanism, as Sanjay explained, by one of the large operators, which is now fully resolved.

Forex impact on revenues was INR 1.6 crores on a quarter-on-quarter basis and INR 6.1 crores on a year-to-year basis. Q2 revenues growth would have been 4.5% year-on-year. It will be excluding euro impact. So, on a constant currency, we are reasonably growing at a stable rate. Gross profit witnessed a degrowth of 3.3% on a year-to-year basis to INR 68.3 crores.

On the cost front, in Q2 FY23 there was an increase of 13.7% in manpower cost sequentially. Our marketing costs grew 4.5% quarter-on-quarter. The reasons are the same as we mentioned earlier, due to our ongoing investments in upscaling launches and onetime optimization.

EBITDA stood at INR 0.3 crores with a margin of 0.2% for the quarter. The drop in EBITDA was majorly due to increase in marketing investments, which will come down in future and will result in market reach, leading to an increase in revenues coming from Challenges Arena and ONMO.

Our profit after tax was INR 0.6 crores with a margin of 0.5%. In terms of geography, India registered the highest growth at 37.4%. Middle East and Africa witnessed a growth of 14.2% on a year-to-year basis during the quarter. As Sanjay mentioned, I would echo the same thing that going forward, we would expect to see a very decent growth in revenues, led by both new products, Challenges Arena and ONMO. We expect to have 58 agreements by quarter 3 for Challenges Arena.

In terms of balance sheet, our DSO was at 123 days. We have a strong cash balance on a book at INR 113 crores, the decline is on account of investments and product development. During this quarter, we incurred R&D and product development expenditure of INR 16.7 crores. We will continue to invest in our gaming business and strengthen our position on both the B2C gaming market as well as our foray into the B2B safe space, which will be our key focus area.

A lot of operating metrics have data and data have already been shared in the presentation deck. I'm sure you all have access to the same. Some of the metrics are being shared for the first time to give you 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: Thank you, Asheesh. Thank you, Sanjay. Thank you all for joining this call. To be honest, I'm really happy with our team on the sales front for both Challenges Arena and ONMO. Last quarter was the first quarter we gave indications of where we were going, if you remember right, we did show our targets for both Challenges Arena and ONMO. If you look at the October numbers, we're tracking right on plan and in some cases, even over it.

We all want this business to be material and in fact impactful in the business. And we have built a 200 operator plan so that the majority of our revenues would come from gaming on two products, Challenges Arena and ONMO within 200 operators. I just want to restate that. There's never been a product deployed into 200 operators in the world. In 20 years, history from mobile, there was never a product with that kind of growth quarter-on-quarter and signing.

Right now, obviously we started the year with a very low amount of numbers. Now it is getting material. We're in a state that we don't know where the next quarters are really getting material. So, as you can see already, the forecast for the year in October is already growing and the more we grow just to be clear, and we said that last quarter, there's a good 2 quarters investment before the revenues on each operator that we go live really kick in, but the marketing expense is front-loaded.

So, the more we grow, the more the marketing expense will grow and impact the EBITDA until the base really hits hard on profitability, that's the way the model is built, and that's how it is. And to be honest with you, I want us to grow big time and that's exactly what the team is doing. The team is doing a fantastic job on that side.

And on the ONMO side to have the best 5G gaming product the things getting together. Nir had a very good first three months. We're really setting up to have the best 5G gaming product, and that's what we're about to really hit the market with a global product deployed within 200 operators and that's my number one metric. That's the number one metric we're pushing the team to make sure we deliver to make sure that this company is really, a key player in the mobile gaming industry and that's exactly where we're hitting.

So, to that end, I am satisfied with this. If we got every number in the quarter and you look and don't enlighten with quarter, doesn't look good quarter-wise, but it is, when we look at really the performance that we're doing on our core objective, which is gaming.

Tones, just a small hiccup on Tones, we almost promised that Tones would be stable. We came a long way because many years back, Tones has been slipping big time. It is stable on year-on-year even a slight growth this year plan. So unfortunately, this quarter that we had a small two-weeks hiccup. It's been resolved, and our forecast is still that it's going to be stable.

Same thing with video, I mean exchange rate happened. And lastly, we did optimize some resources. There were some onetime separation costs for digital numbers. So basically, you sum up the whole quarter with this, but the core of it is that we're above our current plan on the 200-operator plan, which makes me really happy and again, I want to congrats the team on sales front that are really working it.

So, with this, I'm going to open the floor with the questions.

Moderator: The first question is from the line of Danish Jain, an individual investor.

Danish Jain: I have two questions. The first question is on the customer issue mentioned in your comment. So, sir can you elaborate more on that issue or what are the issues here? And this issue sorted out now or may have impact as going ahead? And the second question is on marketing expenses. So right now, sir, marketing expenses is around 13% of revenue versus 6.2% of revenue Y-o-Y. So the percentage is going to reduce in next quarter, or it will be remained at the same percentage of revenue in the coming quarters, sir? This is my two questions, sir.

Sanjay Baweja: Yes. So let me first start with the sorting out of the Tones part, which we mentioned. Yes, the issue has been sorted. There was a disruption with the customer, but coming up will take two, three months it takes slowly and steadily, we'll get back to the number of customers consumers that we have. So that's behind us. But more importantly, like I said, we are adding new customers and that will make sure our revenue becomes stable and that in fact, over the next two quarters, we will likely to see some growth.

On the marketing side, clearly at 6.7% has now become about 13%. I think that's a change. I don't expect the marketing cost to considerably go down. In fact, our investments, as we talked about, all of us talked about the fact that we have launched many-many new customers in this last three months to four months, and we will see marketing expense. But the good thing is our revenue will increase more rapidly. So, while there might be a slight reduction in percentage terms to your question, but the good thing is this investment will give us much better things in Q4 FY23 and the next year Q1 FY24.

So, I would request patience for a couple of quarters, and you will see considerable profitability coming our way as we go along. But give us, this one quarter, two quarters to establish ourselves from a marketing perspective and to spend this money to invest this money rightfully so that we get many more consumers, and we have much better profitability as we go along. Like I said, this product is very profitable. This will help us. And once it stabilizes in a couple of quarters, you will see considerable growth like you've already noticing that on a year-on-year basis, the gross margin has started to go up, what was 49% has gone up to 52%-plus we expect that this growth will continue every two quarters you'll see considerable profitability improvement from a gross profit perspective.

So, we will see profitability improving, have patience. This is a temporary phenomenon of very high marketing spend that will cool off over the next two quarters. So just stay, bear with us for this temporary phenomenon of investment in marketing.

Danish Jain: And sir, can you provide me the March quarter revenue growth?

Sanjay Baweja: No, we can't give you March quarter revenue growth. But we believe that today, for example, if you were to look at percentages of CA, as a percentage of our revenue is about 8%. We believe that by the end of Q4 FY23 or in Q4 FY23, we should be very close to 13% to 15%. So that's the amount of growth we expect from Challenges Arena in terms of revenue. And we will start having some percentage points for ONMO because that also will start improving pretty rapidly now in terms of revenue.

Moderator: We have a question from the line of Mithun Aswath from Kivah Advisors.

Mithun Aswath: The question was, obviously, your Challenges Arena and ONMO businesses are growing quite rapidly. I just wanted to understand, if we keep both the new business and the old business aside, how would that old business grow this year, because we are not seeing overall revenue growth. I just wanted to get a sense. I remember last quarter, you were mentioning that this year, you were looking at double-digit overall growth for the company. So, I just wanted to check whether that's still on the track.

Sanjay Baweja: Yes. So, the biggest driver for that double-digit overall growth is Challenges Arena. That was clearly the growth engine, so to say. The Tones and the Video business, they were supposed to be stable or marginally up. We were unfortunate to have this huge set back from a perspective of currency. So that's kind of given us a big jolt. If I may add because that currency hiccup especially for euro will continue over this next two quarters. So that's the only issue that we believe we will face for double digit, but we will be very close to it because Challenges Arena will get us pretty close to the numbers what we had projected for ourselves because Challenges Arena is showing actually better growth than what we had thought. So, we expect good growth year-on-year.

Mithun Aswath: Right. That was point one. On the second question, on the Challenges Arena, you're spending quite a lot on marketing, I just wanted to understand how long would this marketing expenses continue? And do you think it would level off by Q4 FY23 and the next year, you would be at a certain absolute number and revenues would continue to grow? Or these revenues actually being grown because of the marketing? And if you step off the marketing, you will not be able to retain or grow those revenue numbers in Challenges Arena?

Sanjay Baweja: So, marketing will continue to grow. But the good thing is that the revenue will grow much faster than the marketing. So, a lot of this marketing is also performance marketing. So to say that, oh, you know what marketing is going to come down, no, it is not going to come down. It will continue to increase, but the revenue increase will be much faster. And you will see that from a gross margin perspective, we'll see a much more rapid growth happening as we go forward in quarters. And therefore, that will add to the profitability piece.

Like we keep saying, at the EBITDA level, we expect challenges arena to give us on a stable base, which could be in the next two, three quarters, a 30%-plus kind of margin. So that is likely to happen. So, we don't expect the marketing to come down to a stable number, but yes, it will come down in terms of overall percentage of revenue because the revenue will move much more rapidly but may not happen in the next one or two quarters. But beyond that, we will see that tonality happening with the revenue because the base will be large, the revenue will continue to grow rapidly and the marketing as a percentage will start coming off and your gross margins will be very-very high from an overall perspective.

Mithun Aswath: And are you seeing any impact because of the whole inflation in Europe and these other countries? Is the usage reducing and these are not really essential spend? So just wanted to get a sense of is that impact also being seen?

Sanjay Baweja: So no. To be honest, no, we've not seen that effect. But just please remember, while what you're saying is this is a non-essential in that sense but look at it from a ticket size quantum perspective towards from the total income perspective. It's a very small amount that one is talking because on the ARPU, for example, in India, we're talking a very low number or in Asia, a very low number.

And in dollars, a slightly higher number in Europe, but then the income levels are also high. So as a percentage of income, these are very small tickets, small items. we've not at least seen any hiccup in there and like we've mentioned earlier, we are there in a large number in Africa. There in Asia in a big way. We are not seeing any let up whatsoever due to usage reduction. No, that's not been seen at all. Nandi, if you're there, would you like to add anything on this because Nandi drives our sales and all that, so maybe he can comment.

Biswajit Nandi: No, Sanjay, I think you are right, at least over the last few months, across different markets in Asia, Middle East, Africa and Europe, we have not seen any change in trend lines because of recession. And I think the assumption is that, yes, because the ticket size were pretty less. It will continue to be the same as we move forward.

Mithun Aswath: And if I can just speak one, last time you had mentioned that you are also looking at a B2C play through ONMO. Are those aspirations continuing to be there and you were looking to raise, I think, some equity in order to do that. So just wanted your thoughts on that and also wanted to understand the government's policy on GST and certain tax that they want to impose on gaming revenues. So just wanted to see how we are placed in this whole scenario.

Sanjay Baweja: Yes. So let me say that, that we have, FC mentioned about the 200 operator plan. We have shifted a bit in our thought process in first initially focusing on the B2B part of even the ONMO, and that's our focus area. And to that extent, therefore, our requirement for equity infusion is that much lesser, to be honest, that we don't need, from a B2B perspective, as you've noticed, it is a subscription model. It starts generating revenue and profitability fairly quickly as compared to the B2C model which takes a much more investment from a marketing angle, and therefore, we've kind of shifted our thought to that. And I'll later on also request Nir to talk about it.

On the aspect of the government part from GST, etcetera, I think our R&D is something that we are now not focused on at all as we were global in that aspect. So real money gaming is not part of our focus area, and so therefore, the GST aspects, etcetera, don't really apply to us. But I'll request Nir to also maybe talk about a little bit on how, where he sees growth and from a B2C perspective, what's the thought.

Nir Efrat: Yes, sure. Well, absolutely, B2C is part of our long-term plan. We see ONMO is a global successful big app, available for everyone. We think it can be very compelling and exciting gaming experience with people around the world, will be very happy to use. As we go to market strategy, in the short term, we're focusing on, and leveraging our assets which are the relationships with dozens or close to 200 telcos around the world. So, we're focusing on using those relations to the millions of users then. So, in the next few quarters, we'll be focusing on really ramping up telcos and getting millions of users. And as a next step, we'll open up ONMO for everyone. That is just a natural evolution of our strategy.

In terms of real money gaming, we have made a choice to focus the product should have a clear focus on what it is in terms of the drivers, the motivation for players. And we think it could be a much bigger product if we do not have drivers of earning money, but having great experiences, moments of gaming and a chance to play really world class leading titles, which are only available if we do not offer real money gaming. So, this is what we're doing right now. We moved away from the real money gaming, and we're focusing on a great social experience.

Moderator: The next question is from the line of Rana Goshal from Synergy TTL Sports.

Rana Ghosal: I've been looking at the reports and the numbers and all. What I would want to understand is where is your focus growth, marketing focus in terms of geographies? And what do you expect in terms of growth in those geographies?

Sanjay Baweja: As we mentioned that we have significant growth that we've seen across Middle East and Africa. We've got very, good numbers in Asia. So, from a live perspective, we have 16 in Middle East, Africa, we've got 13 in Asia and then Europe and LatAm is also contributing four to five. So, we're going to be completely global. So, India is going to be a very small part of our revenue base.

Our aim is to have a lot more focus in Africa and Middle East, which is giving us good traction. In Europe, we've started that with five and six operators already. So, we're pretty much spread out across the globe. And I'll ask Nandi also to talk about specifically from a sales perspective. But we are not letting up any area for not going. The Americas also South America, LatAm showing good traction to us. We will shortly be getting into the North American market also. So, Nandi, why don't you just talk about our marketing focus?

Biswajit Nandi: Yes. Actually, I think on the geographical distribution about 80% of our customers are right now in Asia, Middle East and Africa. So, we will definitely double down our focus on that with great success there, where we will use the success to accelerate further strengthen in this region. That's number one. Number two, LatAm and Europe is still very small under a huge headroom there for growth, which we are really now focusing on. We have set up a small team in LatAm. We have set up a small team in Europe now to focus on the sales in those two regions. So progressively as we go to the new quarters, you will see a lot more customers coming in from LatAm and Europe, that's for Challenges Arena. And then for ONMO, we are in conversation in North America, it's a very interesting taking for us where we have never done in the business before, but we are really in the serious conversations there. And we're hopeful that we will track something in North America using ONMO as a product there. So, it is fairly global, it is getting more-and-more global as we move forward, and our marketing spend as well also will reflect this nature of global expansion. I hope that answers your question.

Rana Ghosal: Yes. That I assume would be still on a B2B mode, right, not on a B2C mode?

Biswajit Nandi: Yes. This is on a B2B mode. Absolutely.

Moderator: The next question is from Mithun Aswath from Kivah Advisors.

Mithun Aswath: I wanted to understand your cash balances have been steadily coming down over the last few quarters as you spend more money on product development. Just wanted to understand when do you see that kind of leveling off and your cash actually starting to grow? Because obviously, you mentioned that the larger plans of the B2C are not going to fructify in the near term. So I just wanted to understand that what is your sense on how that is going to start moving?

Asheesh Chatterjee: Yes. Thank you for that question. This is Asheesh. I think if you look at the mix that we have on our revenue side, today, Challenges Arena is roughly 8% of our total top line. And as we go ahead, as FC and Sanjay explained, this is going to kind of become a much larger proportion of our top line. And these are really high EBITDA margin products in our portfolio. So, we will start returning internal accruals at a much higher level than what we are currently seeing. So, the current investment is more like a working capital investment for two or three quarters that we do on marketing start recouping back to us. So yes, we are investing behind marketing and ONMO as a product, but it should all recover back in two or three years. And since B2C is slightly deprioritized, we don't need equity funding. We should be able to manage that through our internal accruals and cash on the balance sheet.

Sanjay Baweja: Yes. And to add to it, if at all, this is a small gap that we see from a working capital or capex perspective, temporary gap for six months or whatever, we have lines of credit from the bank that we could use temporarily. But from a long-term perspective, like Asheesh was mentioning, there will be considerable cash generation from the business per se, because we've been talking about how EBITDA will rapidly improve.

But yes, our investment if we keep doing about INR 15 crores to INR 16 crores of investment in the product development, and that could go up a bit over the next two to three quarters. But the intrinsic value that we are getting from both Challenges Arena and ONMO from the revenue and profitability perspective, we will take care of our cash requirements. And there will be a small mismatch, we will see how from a debt perspective or otherwise, we will meet that objective.

Mithun Aswath: Sure. So can I understand maybe in the third, fourth quarter, the cash levels will continue to come down. And maybe from quarter one next year, the cash levels will start growing again or?

Sanjay Baweja: Yes, that would be a fair assessment.

Moderator: The next question is from the line of Kunal Shah, an individual investor.

Kunal Shah: How would be the growth outlook for FY24 onwards, sir?

Sanjay Baweja: I think while not giving the revenue numbers, it will be unfair to give revenue numbers per se. I think we are giving the lead indicators. FC has already mentioned that we have this 200 operator plan. We are already sitting at by the end of this quarter, our target is 58 out of them will be live. 58 of them will be signed up, 18 already signed up for ONMO, that number is bound to increase.

So, for FY 2024, will let's see a huge growth in revenue, because that will be the real, the growth driver will be Challenges Arena, it may start the year with a good I don't want to take a number, but it could be as big as 70 operators already with us signed up for Challenges Arena, maybe about 25 operators signed up for ONMO. So based on that subscription model, we could see significant revenue opportunity in the year FY24.

So, the lead indicators are clear in terms of huge growth. We can't give numbers, but I think all of you being savvy investors, the mathematical projection in our case is more geometrical in that sense, projection will really reflect the revenue growth that we see over the next year. So clearly, it should be a very good revenue growth year for us.

Moderator: The next question is from the line of Pulavarthi Sai Kiran from Pulavarthi Advisors.

Pulavarthi Sai Kiran: Just one question. If you can just explain what's the thought process behind deprioritizing the consumer business, especially on the B2C business and ONMO?

Francois-Charles Sirois: Yes. I really believe in focus. We tried a lot of things to tell the market. And I just want to talk about the real money gaming that we all like, and I thought it was fun to have a bit of money on the system. But just to be clear, it brought a lot of focus on the service, all the operators that we launched. Now we have B2C first product. The whole thing we do is linked to one B2C product, every mobile operator launching the subscription model. They don't support real money gaming. So already have to support two different sites, , product. The onboarding process for the subscriber playing and a subscriber playing for real money is two different onboarding process.

The types of games are different, right? Real money gaming, they want more chance than skill, very tough. So again, this type of game is different. The AAA game developers that we want to post it on ONMO, a lot of them have said, there's no money gaming, we're not there. So, then you have to maintain two sites for AAA games, which we really, really want, right? And then when you add all that, and if I sum up with the cherry on top, all the cheaters on the system, as soon the real money have a lot of cheaters.

So honestly, we had the call to make do we support two independent service, or we really focus. And with the traction we have today, the actual complementary either is between Challenges Arena and ONMO. When we pitch an operator, they see this as a great path forward to launch CA to have one or more, for their 5G very complementary a lot of traction. We're talking a lot of dollars here, which the actual return on investment when you look at $1 invested marketing through a launch with an operator, which is still the ONMO brand, our B2C products sold to an operator, and we still put marketing on top. The return on investment on that dollar is way, way higher than going and put marketing dollars onto an B2C site with or without real money gaming.

So, marketing wise, that was a real move to say what, let's focus on the operators as the first wave the product remains a B2C product. I mean, in their first goal is to make sure we have the best mobile gaming product in the world. And when we say the best, that means on B2C standards. So that's exactly what we're doing. Marketing wise, it's clear for us that we need to support that growth to operators because they want the service, and we see it right away in that curve. So, we're really supporting the operators that front. And any market thing that we're doing, let's get the critical mass that's unless that marketing with the operator still our brand in there, even if it's co-branded.

The return on investment is way better. And as a second wave, then we can decide in which country we have enough operator, enough traction and enough users to really invest additional marketing direct to that country, right? So that's the strategy, which is really, really focused and which will really pay off in the next 12 months.

Pulavarthi Sai Kiran: And just a follow-up. Under what circumstances or probably at what point of time you will reconsider a B2C business?

Francois-Charles Sirois: Well, when you say reconsidered, I just want to be clear today, we have a B2C service right? Anybody can log in and from anywhere with an operator or without an operator. And that's the goal, like the goals have one global central product, which is the same for all operators, including B2C, so that B2C subscribers can play with Airtel, could play with Rogers in Canada, could play with MTN in Africa and it's the same service. So, the door to enter the service is different, but the core service and the players are actually playing together.

So that's what we're doing right now. In 12, 18 months once we have critical mass through a lot of operators, and we've really deployed the operators, then we're going to look into, okay, which country is really worth investing in direct marketing dollars into B2C. India or is it US or is it Spain or is it Brazil where we have a lot of interest from operators.

So, there's a lot of countries where we have multiple operators today who have interest. So, you get all the operators, with the three, four operators in the country to launch ONMO and then you already have a critical mass to add marketing dollar directly, then it's a decision of cost of acquisition versus lifetime value that we have. So, it's better to invest in marketing dollar with the operator or direct to the market. But as long as we have critical mass in that country. So that's the planning we're going now.

Moderator: The next question is from the line of VP Rajesh from Banyan Capital Advisors.

VP Rajesh: Congratulations on great numbers on Challenges Arena. Sanjay, you mentioned about the base business, and I wanted to make sure I heard this right. Are you saying that if you take out the currency headwind, that business is either stable or growing and it will continue to be stable and growing in this financial year? That's what I was trying to understand.

Sanjay Baweja: Yes. You're correct. You heard me right. Like I mentioned earlier, for example, four new Tones customers. We were talking about cross-selling. So that's starting to creep in. We've got now four new customers. One is already live. One of them is going to be live in the next month or so, and the balance two will be live in this year itself. So we will see traction. We are seeing traction there. We will be stable, therefore, from a Tones perspective, the hiccup that we had in August, September in a couple of customers, that's behind us. So that will also creep back with the same number. So we don't expect any erosion as far as Tones business is concerned.

In the Video business, the other large business for us, we got it essentially because if you were to look at our business in terms of euros, we are stable, but we got majorly hit by currency. And we believe the currency behind us, so any improvement on that side will benefit us. But as I mentioned earlier, nobody can be sure on the currency side. But otherwise, from a customer business perspective, it is stable, currency, we can't really tell.

VP Rajesh: And then on your marketing spend, can you give us a sense as to how much of that is being spent on the base business versus Challenges Arena versus the ONMO business?

Sanjay Baweja: So, ONMO is pretty small now. There's not much. But you can say that more than 50% or about 50%-55% is Challenges Arena, the balance is the base business. So clearly, that increase that you see from last year to this year. So, for the base businesses the marketing is stable. The entire increase that you've noticed from 6% to about 13%, it will probably go up a couple of notches further temporarily and then that kind of stabilize, but that's primarily been because of all entirely due to Challenges Arena.

V.P. Rajesh: And the follow-up to that is that as you ramp up the marketing spends for ONMO. How should one think about its overall impact on the margins because you have Challenges Arena business, as you said, the revenues will be growing ahead of the marketing spend. But as the spending for ONMO also ramps up, do you think like the EBITDA margins will start to increase from Q4 FY23 or Q1 next year? Or will it be further out? Just if you can give a general sense as to how that will lead?

Sanjay Baweja: Yes. So ONMO also will be similar while it may not necessarily have as high a gross margin. But at the EBITDA level, it will not be far behind. So it will be more profitable than the our core businesses, which we already have, but the reflection of it will start happening, let's say, next year rather than this year. So because that's the time it will really take quantum from base because as of now, it's pretty small, but we see that also rapidly growing.

I think to look at ONMO, the start point should be next year where we will see again, good EBITDA, but it will follow Challenges Arena, but we can save that 12-month lag or 15-month lag in that sense, Challenges Arena will lead ahead, ONMO will follow. ONMO will have marketing spend also. But there also, we have high potential for profitability as we go along.

V.P. Rajesh: Right. So, are you suggesting that your EBITDA margins have now bottomed and from here on, they'll start to rise up in the Q3, Q4 and I mean next year?

Sanjay Baweja: Yes, that's our belief that you will really see a rapid improvement to Q4 FY23 onwards. Q3 FY23 will also be in improvement, but Q4 FY23 onwards, we believe we will have rapid improvements.

Moderator: The next question is from the line of Kamal Sodhi, an individual investor.

Kamal Sodhi: Quick question, is OnMobile on track to bring in the PE player into the fully owned subsidiary ONMO, Inc. by this calendar year?

Sanjay Baweja: We've been open in our discussions with various people and whether the investor comes in ONMO Inc, or investor comes in OnMobile, we are flexible. We've had various discussions. I obviously can't talk in detail about what's happening. But whether it happens in ONMO, Inc. or OnMobile per se, we can't say, but we are talking to people let's see how it goes. But I mean, it could happen any time. It may take longer time, so we can't put a finger on how much target is going to take.

But like I said, and like FC also mentioned, our requirement of funding because with slight turn in terms of our tactics and strategy within terms of go-to-market strategy of B2B, our requirement of funding is not there as much. And whatever temporary shortfall that we have, we could also look at that from a debt perspective a little bit. And obviously, we already have some cash and our cash generation from next year onwards will also start moving up considering that Challenges Arena and even ONMO will start generating more cash from an ongoing perspective.

But whether we will definitely get somebody let's be clear, we are not in a hurry or a desperation to get somebody that we will not care for the stakeholders' value creation. Our aim is also while we need cash for our long-term strategy, our stakeholders are prime in our mind, and we'll make sure we add a lot of value to them rather than trying to say, "Oh, you know what, let's get it at any value that gets." That's not going to happen for us. We would rather wait for the right person, the right investor or the right strategic person to come in with us, and at the right time and not necessarily at a lower level.

Kamal Sodhi: Does this mean that your B2C plans would be pushed further?

Sanjay Baweja: So, like FC just mentioned, the B2C is still 12 to 18 months away in that sense. So clearly, the product we are focused on creating a great product for the B2C market with product the same. But from a marketing perspective, we will first create the base like FC mentioned, will create the base and that will happen over the next financial year, and then we will target the B2C market. And we are not also sure which market, whether it's, like you said, whether it's India, whether it's the US, whether it's somewhere in Europe or in Africa, we are open to that, but it will all depend on how we progress in the next 12 months from our marketing base that we are able to create, thanks to the B2B model that we are pursuing as of now.

Moderator: The next question is from the line of Kunal Shah, an individual investor.

Kunal Shah: Sir, looking at Q3 FY23 and Q4 FY23, so how will our PAT look like? Will it be similar to Q2 FY23?

Sanjay Baweja: Sorry, Kunal, but we can't give this kind of absolute numbers. Obviously, as a management team, our desire is to get better. Our target is to get better. But I can't put a finger and say, "Oh, you know what, this is what happened." We've given you indicators of how our revenue is likely to go. We've given you a few indicators of how we believe the profitability is in terms of the product, each segment of the product. Beyond that to say what will the PAT be, what will not be, I think it's more mathematical, and we'd not be able to put a finger on that. But like every other management, our target is also to show improvements How much we do? We can't obviously say that. But obviously, there is a target for improvement.

Kunal Shah: So, sir, is there any chance we might see a loss also in Q3 FY23 or Q4 FY23?

Sanjay Baweja: Highly, unlikely. So, I don't know...

Kunal Shah: Highly unlikely. All right. All right. Yes. That's it.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: One question, Sanjay, on the 58 operators that you're targeting by the end of this quarter. So if you can just give a sense of the number of subscribers that they have, total subscribers that will be helpful. And secondly, related to when you talk about 200 telco operators, what is the time line on that? Like is it by the end of next financial year or the year after that? If you could just give some sense of the ramp-up to go and get to that level?

Sanjay Baweja: So as of now, we are about 2.3 million active subscribers. And our aim is to get to 2.9 by the end of this quarter. So that's from a subscriber perspective, overall cumulative gross adds, we've already had 10 million. So that would also rapidly keep going up.

And as far as the 200 operator plan is concerned, that's a 2-year, 2.5-year plan. So, we believe year 2025 financial year, so March 2025, that could be taken as a target for that plan.

V.P. Rajesh: Right. Just one quick follow-up. When I was asking about subscribers, I'm not asking about our subscribers. I was asking about total subscribers of those 58 operators.

Sanjay Baweja: Sorry, total subscribers of?

V.P. Rajesh: The 58 operators that you are getting into deal.

Sanjay Baweja: Okay. No, no, that information, , I don't think anybody would have, we'll have to really collate it and get back to you, because, I doubt if the total number of subscribers that each of them, we have many, many big guys in that, because there are countries like South Africa, Nigeria, of course, India. There are many big countries there. So I would not be able to get that. Nandi, do you have any thoughts on that. Maybe we could have to get back to you.

Biswajit Nandi: No, we actually have not collated the data. Also, we need to understand one more thing that Challenges Arena is a product meant for the digital users, right? So the total number of subscribers of the 58 customers did not necessarily be our TAM. Our TAM would be lesser than that, a subset of that, which actually are digital users in that total set of subscribers, right? But we have not done a math on that to see what is the total addressable market that we have right now out of 58 no. So, we can do that math and get back for sure.

V.P. Rajesh: Yes, please, because I think that's what I was going towards that if, let's say, these 58 guys have 100 million subscribers. I'm just making it up, the digital, let's say, are 50%, 60% of that. So right now, you are doing 3 million, I think you said, out of, let's say, 50 million subscribers. So, there is a lot of runway there. That's what I was trying to get a sense of.

Biswajit Nandi: The right way to look at it is not the net active base. The right way to look at is if you look at the gross adds that we have done, right, which is about 10 million plus, which means that at any given point in time in the life cycle of the product, that many users have come to the platform, right? And then they went out of the platform because of their inability to pay, right?

So that's what the right number to look at is that how many users out of our total target addressable market has come to the platform, not the net active base, but the gross adds.

V.P. Rajesh: Yes, we can look at both rates...

Sanjay Baweja: Rajesh, let me add from a runway perspective, you're right. The runway is huge. I mean we feel it just about started, right? I mean we are live with 33 out of that, there's a huge runway because last 12 have started just one, two months ago. I mean this is just the beginning from a revenue perspective. Please remember, this is just the beginning from a revenue perspective. We will rapidly see growth from the existing guys, the 33 guys and then a new customer will continue to come. So, there is a huge amount of runway to your point, at this point, there are subscribers.

Obviously, of the digital subscribers, we've not even reached of our own customers who are live with us, did not even reach 50%. There is a huge runway. I mean India alone one guy from a total customer is 300 million. But out of that, there will be a lot of digital. But the numbers are huge. So let's not get there. So that's like maybe next year, when we're looking at some 50 million cumulative brought as that's the time, we'll talk numbers. It's too early picking up the Universe the canvas is very big.

Moderator: As there are no further questions, I will now hand the conference over to management for closing comments.

Francois-Charles Sirois: Thank you. Thank you all for joining this call. Next call would be beginning of February. I think we'll have a lot of good news for you by then, especially on the growth again for both Challenges

Arena and ONMO and look forward to discussing the results with you. Thank you so much and have a good day.

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.