“OnMobile Global Limited

Q2FY24 Earnings Conference Call”

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MODERATOR: **MR. PRATIK JAGTAP – ERNST & YOUNG – INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the OnMobile Global Limited Q2 FY'24 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 E&Y IR. Thank you, and over to you.

Pratik Jagtap: Thank you, Yashashri. Good day, and welcome to the Q2 FY'24 Earnings Call of OnMobile Global Limited. Representing the management today, we have FC, Executive Chairman; Sanjay Baweja, Managing Director and Global CEO; Asheesh Chatterjee, Global Group CFO.

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 statement to reflect future or likely events or circumstances. Having said that, I now hand over the call to Mr. Sanjay. Over to you, sir.

Sanjay Baweja: Thank you, Pratik, and thank you all for taking the time to join us today. I hope you're all doing well. The results and presentations are already hosted on our website, and hopefully, all of you have had a chance to look at them.

At the outset, let me say that for Q2 FY'24, we've been able to maintain our profitability. In fact, slightly better at EBITDA and operating margin level, just about 0.2%. The slight reduction that you noticed at the PAT level is due to higher profit that we had in Europe, and therefore, higher taxation since the rates there are higher in terms of taxation percentages. And all of this, let me say, has been despite the fact that during this quarter, there was a change in the business model from one of our key customers, which had a significant impact on revenue and profitability across all products.

We were able to mitigate that impact with revenue growth with other customers and also, of course, cost optimization efforts. It is our endeavour despite the setback to keep working on revenue growth in the coming quarters, and we believe that revenue growth will happen.

Let me now update on mobile gaming. During the quarter, overall gaming did experience a decline in revenue attributed again to the changing business model of one of our key customers, as mentioned earlier. But this volatility is a short-term impact, and we will overcome this with our continued efforts.

During the quarter, cumulatively, 75 customers went live as against 64 customers in Q1 FY’24, reflecting an increase of 17% in Q2. Revenue increased by 32% year-over-year. Further, in Q2 FY’24, 19 new customers agreed to our terms for gaming, taking our cumulative agreements to

117. We expect the momentum to continue and these cumulative agreements to reach around 135 by the end of Q3 FY'24.

With our focus on implementation and streamlining the go live process, we are targeting to go live with 100-plus customers in quarter 3, which if it happens, will be at 33% growth in the number of customers. Also, it will see us achieving half of the vision of signing 200 operators, and that too within a year of putting the vision document in place.

We are continuing to see our healthy pipelines and expect to be live and sign many more clients in the coming quarters. Like I said, one of the other aspect is we are gaining substantial traction now in Europe and anticipate that around 5 to 6 customers will be live within Q3 FY'24 for gaming business there itself. Here, I would like to reiterate that Europe customers have a much higher ARPU than the normal customers that we have, for example, in Africa or Asia.

Now in terms of usage and actual consumers, the cumulative gross paying subscribers at the end of current year stood at 28.72 million as compared to 24.69 million in Q1 FY'24, a growth of 16%. We are targeting to touch close to 34 million subscribers in Q3 FY'24. Overall, in mobile gaming net active base saw steady growth to 4.1 million in Q1 FY'24 to 4.47 million at the end of Q2 FY24. This shows an increase of about 300,000-plus consumers in the quarter despite the churn of 600,000 from one of the key operators. We are targeting to touch about 5.2 million subscribers in Q3 FY'24.

We anticipate a rebound from this temporary disruption in mobile gaming revenue, which occurred due to the customer issue mentioned earlier in the upcoming quarters with the addition of new customers to our platform. As mentioned earlier, we currently in the investment phase and as we said in the earlier call, investing in growth is through disproportionately high marketing spend, particularly in the new geographies or operators with whom we are constantly going live.

As we stabilize, we will continue to see better profitability. We, however, may see some volatility in our margins until that happens. It is important to note that in the last 6 months, our PAT has gone up from INR4.7 crores, which was about 1.8% margin in H1 FY '23 to INR18.4 crores, which is 6.8% margin at H1 FY'24, which is 3.9x the growth. Our gross cash profit has more than doubled. And as you must have noticed, our cash balance has also improved significantly. We expect mobile gaming to generate an EBITDA of more than 30% once stabilized, which will boost our profitability as we go now.

Now I will talk about mobile entertainment section, mainly tones and videos. Video saw healthy growth of 15.8% quarter-on-quarter due to increased subscriber base in Europe, which led to higher profit in Europe and therefore high taxation, I spoke about a little while ago. Tones and other products saw a decline quarter-on-quarter due to key customer changing the business model. Having said that, we are being able to successfully cross-sell our existing business offerings to new clients acquired through Challenges Arena, and we are therefore very optimistic about securing more customer agreements in the forthcoming quarters for the Tones business and in fact, the entire mobile entertainment business.

Let me end by wishing you all a very happy Diwali. I hope all of you enjoy the festive season. 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, for joining us on this call. I'll share the key highlights of our financial performance for the second quarter and half year ended September 30, 2023.

In terms of the half year FY'24 performance, we reported revenues of INR 276 crores flat on a year-on-year basis, while our gaming revenues, which now constitute close to 15% of our total revenues have grown by 82% on year-on-year basis. Gross profit margins have improved by 332 basis points to 54.9% on a Y-o-Y basis, largely because our gaming business enjoys a much better contribution margin and the gross margin.

On the cost front, manpower costs have reduced by 20.3% on a year-on-year basis as we continue to drive efficiency and productivity across all our businesses. Marketing costs grew by 28.4% on a year-on-year basis due to increased spending on gaming products, which today accounts 62% of our total spend versus 44% in H1 last year. The reduction in people costs and opex have resulted in improved EBITDA for H1 FY'24, which stood at INR 24.7 crores, up by more than 3x on a year-on-year basis.

EBITDA margins for H1 FY'24 stood at 9.1% compared to 3% last year. H1 FY'24 PAT increased by nearly 4x year-on-year to INR 18.4 crores with a margin of 6.8%. For H1 FY'24, our EPS stands at INR 1.7 as compared to INR 0.4 in H1 FY'23.

In terms of our Q2 FY'24 performance, we have reported revenues of INR 136.3 crores, marginally down by 2.4% quarter-on-quarter. The revenues for the quarter were significantly impacted, as Sanjay explained, on account of change in the business model by one of our customers, although we have been able to mitigate the same with revenue growth in other accounts and cost optimization measures.

This effect of impact change will be temporary as we will be able to offset it further with strong revenue growth in our gaming business in the coming quarters. This quarter, mobile entertainment has grown 3.9% despite that impact on the back of our video business out of Europe, which have grown by 15.8%.

I want to reiterate what Sanjay has mentioned. In the coming quarters, we are going to see rapid growth in our gaming revenues on the back of 123 contract confirmation as on date, out of which 83 are already live. So, we'll see 40 additional contracts going live and naturally the scale up of all the operators that have already gone live.

Global revenues today constitute 91% of our total revenues. Gross margin has improved by 224 basis points to 53.6% on a year-on-year basis. On the cost front, manpower cost is reduced by 3.6%. Marketing cost has also reduced by 18.3% due to cost optimization efforts. These reductions in costs have resulted in improved EBITDA for the quarter, which stood at INR 12.4 crores, up 44x year-on-year.

EBITDA margin for the quarter is at 9.2% as compared to 9% last quarter. We have reported a PAT of INR 8.5 crores, up 14x year-on-year. PAT margin for the quarter was at 6.4%.

Overall, DSO has been reduced to 103 days from 119 days in quarter 1 FY'24. In terms of geographies, LatAm has registered the highest revenue growth of 112%, followed by Europe and Middle East and Africa growing at 13.4% and 8.7% quarter-on-quarter, respectively.

During the quarter, we have also incurred R&D expenditure on our gaming product, which is ONMO of INR 20.4 crores as we continue our foray into the gaming space. To end with, as this festive season on around the corner, I wish you all a very happy Diwali. With this, I will now hand over the call to FC. Thank you.

Francois-Charles Sirois: Thank you, Asheesh. Thank you, Sanjay. Thank you all for joining this call. We were all expecting growth this quarter. Everything was lining up for this, every single metric. Unfortunately, as you all have heard many times now, one operator has some difficulties and had to change our business model overnight. And it very rarely happens overnight. Normally, when you have a customer, you have flags raising, you might have an issue, you might have a 6 months phaseout. This really happened overnight, meaning 1-week phaseout, and this happened this way.

Now we're not a one company, one project company and that was the whole plan, to grow to 200 operators. We're now hitting this quarter halfway, as Sanjay and Asheesh mentioned. We're going to hit in Q3 100 operators only for gaming.

All these operators, we can have for gaming 2 years ago. So in 8 quarters, we grew to 100 operators. In the next 4 quarters, we'll get to 200 operators. And most of them are really not optimized, meaning the marketing spend has not started yet or is only starting. We have possibility to really, grow this business, and that's what we're really pushing on.

We have to become, as I was saying earlier, a marketing powerhouse. It's a different operation to operate 30 operators marketing and to operate 100-plus operators in diverse countries, B2C marketing that's what we're doing. We're doing marketing through Google, and we have to optimize all the ads and all the content in every single of these operators globally.

So really, what we're becoming is really a marketing powerhouse. And that's what will make the difference in really growing these revenues. We're all expecting this quarter to grow. Out of this INR 185 million of growth on this was expected with this operator gone does the impact. Do we have bigger customers? We do have bigger customers. Will we get bigger customers? We will through the 100 and through the 200, and a lot of them have the potential to be bigger.

It's just in this case, it was one that was with us a long time and was optimized and had all the metrics. So it happens. I mean that's what happened this quarter. I can really put the effort on all the fronts.

As you see, the customer confirmation, we're getting very good feedback from the operators. Europe growth was not supposed to happen that fast because of feedback on ONMO, a lot of operators in Europe are picking up, a lot of operators and 5G are picking up ONMO. So it took a bit longer for the ONMO story to get through. Now people really see the strength of the product, and this is why you're seeing so many operators being on-boarded.

And now it's our task to really invest the marketing and grow to mature the revenues within all these operators. So that's my highlight. That's my view. I stick with the same story. What happened there has nothing to do with our mid- to long-term plan and only impacts the short term. So now, I mean, the key is to support the team and I fully support the team on this plan, you really nailed it and get to a point where we'll be all happy to see growing revenues quarter-on-quarter. Thank you. We'll open it up for questions.

Moderator: We have our first question from the line of Sampath Nayak from Tiger Asset.

Sampath Nayak: My first question is on mobile gaming. We saw a 30% de-growth in the Q2. Is it purely because of Vodafone India?

Sanjay Baweja: Yes, only because of that. In fact some these like we've already mentioned, the cut is much deeper, but because we were able to recover some part of it through other customers, otherwise, the cut could have been deep.

Sampath Nayak: Do you expect this to happen in like Q3, Q4, like this impact to continue?

Sanjay Baweja: I mean, yes, this is an ongoing thing. While we continue our discussion with them in terms of business modelling and things like that, we don't know how much of that will benefit us over time. But as of now, we believe that this is an impact which will be permanent for the time being, for the next 2, 3 quarters, when we target ourselves and higher revenue as we talked about, we have not taken any additional revenue coming from them.

Asheesh Chatterjee: And I may add to What Sanjay has mentioned. On a like-to-like quarter-on-quarter basis, our gaming business has actually grown by 18.6%, but for that negative impact. And with coming quarters when we see more launches and more scale up, this growth is only going to become better and more robust.

Sampath Nayak: Right. Sir, coming to the FY'24 and FY '25 guidance, can you throw some light on that? Because in our previous call, you had told that of our entertainment business would do INR 450 crores of revenue with 18% EBITDA and mobile gaming would do INR 150 crores of revenue with EBITDA breakeven. Are you on this track?

Sanjay Baweja: So look, this customer had an impact on all the business that we do because this was like FC has also mentioned and I also said, this has been a very old customer of ours. All 3 product lines were being used. So there will be an impact in terms of the numbers. I don't want to give exact numbers. But yes, there will be an impact on the total number that we talked about. I mean you can take the numbers of why we said we will. It's our endeavour to recover substantially what we said. But there will be a gap from the number that we had mentioned earlier.

Sampath Nayak: Right. But are we expecting 18% of EBITDA margin from the entertainment segment and EBITDA breakeven for the gaming segment by like end of this year?

Sanjay Baweja: I wouldn't want to call out our overall gaming. We had not said the overall gaming with the EBITDA neutral. But yes, we will be close to that. But until the time, we'll have a couple of quarters of volatility at least 1 quarter of volatility because please remember, this was also a very profitable customer. And when you look at the overall numbers, it has sucked up a lot of bit of profitability also. So yes, these things and like I said, this is a lasting impact at least for a couple of quarters or definitely for the next quarter, there will be some impact. But then it's very temporary. We believe that profitability will get ramped up as soon as we are able put the revenue in place, which is a certainty in the next quarter and the quarter after that.

Sampath Nayak: Right. So, one more question, like what do you expect gaming revenue mix in your total revenue segment for FY'24 and '25? Because you had projected for 25% of the revenue to come from gaming?

Sanjay Baweja: Yes. I think those percentages maybe here or there by 1% or 2%, but otherwise, the trend will be similar. We will have a higher percentage for gaming for sure. We were at 12%, 13% earlier. We'll be in the 20s around that.

Moderator: We have our next question from the line of Dhanish Jain from Assie Capital.

Dhanish Jain: Sir, I have 3 questions. First question is on our cash position, does it include in second quarter on basis of debt collection. So going forward, any further plans of cash utilization for the total development or on the R&D? My second question is on if you're going to provide the Challenges Arena revenue and ONMO revenue separately for second quarter. That is very helpful. And my third question, sir, any update on the monetization plan on Chingari investment.

Asheesh Chatterjee: Could you repeat your third question, please?

Dhanish Jain: Any update on monetization plan on the Chingari investment?

Asheesh Chatterjee: On the cash front, yes, it's on the back of collections. And we have enough resources and facilities available to make sure that growth that we envisage for our Challenges Arena and ONMO remains on track, As FC and Sanjay mentioned, we are now launching in Europe and other Tier 1 markets where ARPUs are going to be reasonably higher. And we'll see a quick ramp up both on top line and profitability in our gaming business.

The way our marketing investments work for both our gaming business that we end up recovering whatever we spend on marketing within a month or 2. So this is just a temporary marketing investment that happens as we scale up 200-plus operators on the gaming business. We have fairly sorted on the cash front. With respect to reporting, we have started reporting the gaming segment or gaming business as a whole. And I think we'll do the segmental reporting at a later stage when it comes up. So, we'll take that up later. On Chingari, Sanjay you would like to add something?

Sanjay Baweja: Chingari, they are looking at raising more money. So as and when they get into an equity mode in terms of raising their next round, we will see it. But as of now, that doesn't seem likely in the next 1 or 2 quarters. Because the market also, to be honest, they also don't want to raise money in the market, which is a little subdued for the crypto because they are now a lot more also into crypto in that sense. They're also waiting. We expect that to happen maybe not in this financial year, very unlikely in this financial year.

Moderator: We have our next question from the line of Kumar Saurabh from Scientific Investing.

Kumar Saurabh: I have a few questions. So one, looking at the financial state of Vodafone India, I mean, there is something which is not surprising. But my question is, have you done any kind of customer analysis where you identify what percentage of revenue is having concentration towards the loss-making customers and how we are trying to ensure that even if such situation happens, we have enough backup. So, any views on that?

Sanjay Baweja: That's a normal exercise. We did -- while you're right that they were in a loss making situation and to be honest, this was something that we had put in at a risk on an overall basis. But now that event has happened. There were 2 risks to be honest.

One was the risk in terms of the credit because if something were to happen to them, but that's past us because they have been releasing money to us pretty okay. So, we are okay on that front. And other risks, like you mentioned rightly, was the concentration risk. We were doing very well with them. They were the first customers for CA and ONMO.

And therefore, like FC mentioned, they had stabilized. We have stabilized with them. They have become pretty profitable to that end. But somehow because of their own internal change and the pressure that they had, they changed their business model, which impacted us significantly.

While we believe that we will grow with them as we go along. But yes, we'll have to start from the scratch. The RBT business has also got impacted because of that. Other than that, while there is the other aspect of video, for example, we have a significant big customer in Europe, but that's like a hugely profitable customer.

Therefore, we don't believe that there's a challenge on that front. And beyond that, we already have 60 live customers. So, our concentration risk is getting depleted as we go along. As we launched, for example, from 75 currently to 100 plus, we will see that concentration risk getting absolutely mitigated or substantially mitigated.

The aim is to get as many customers FC talked about the 200 vision that is likely to happen in the next financial year around that next 4 to 6 quarters. So that's the vision. That will really take care of our concentration risk completely. And not only that concentration from a customer angle, there will be no concentration from a geography angle. We are there in LatAm. We'll be there in Europe. We'll be there in Africa. We are there in Asia across and we are also there in India.

One of the questions, which kept coming in the last 2, 3 quarters or the last 1 quarter, at least was on GST, for example, and because we were not much in India and also because we are not in real money gaming, that does not have an impact on us. So, we are trying to make sure that the concentration risk is mitigated completely. And as we grow the number of customers from 75 to eventually 200 and beyond, there will be hardly any concentration risk.

Kumar Saurabh: Okay. And the other question is, I think in the filing, it was mentioned there was a hit of INR 18 crores. I just want to correct me if I'm wrong. So this INR 18 crores hit is annually, and it will happen every year? Or is it quarterly, it will happen every year? Or what is it? And do we still have some business with Vodafone? And third question, what is the maximum revenue exposure to a single client?

Sanjay Baweja: This is a quarterly impact, and our revenue for this quarter is despite that. So, which means from here on, when we're going to continue to add customers like we just talked about from 75 to 100 lives, we will see growth from there. So, let's take this the current quarter as a base of sorts and then we'll grow from here.

This has already taken the brunt or the biggest impact has already happened as far as VodaIdea is concerned. Yes, they are our customer, and we believe they will grow. But we are not counting that as of now in our numbers. We believe whatever happens now onwards will be additional revenue that we get from them. But as of now, whatever we have, that's it. That's the revenue that we get.

Kumar Saurabh: What is the maximum exposure to a single client in terms of revenue dependence?

Sanjay Baweja: Like I said, 60 customers between CA and ONMO, that's hardly 2%, 3%, 5% or 7%, 10% in a one-odd case. But otherwise, that's the maximum from a gaming perspective, that's the maximum that we have.

Moderator: We have our next question from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: I wanted to understand now the full impact of the Vodafone. I mean, the policy change has been taken into account in this quarter, right? From third quarter, no impact would be coming, right? Would that be a fair statement to make?

Sanjay Baweja: Revenue is a permanent thing in the same sense, the whatever reduction had to happen because of the revenue has happened in this quarter. And therefore, this becomes the base. The numbers that we've declared this time does not include INR 18 crores. And next quarter, obviously, there will be no INR 18 crores. And whatever we grow, we'll grow from the numbers that we have today, which is out without the VI. So that's the broad.

Deepak Poddar: So INR 133 crores would be fair to take it as a base going forward, right?

Sanjay Baweja: That's correct.

Deepak Poddar: And I think in one of the opening remarks, you did mention that we have about 123 contract confirmation, out of which 83 is already live. So, we should see a rapid growth in gaming revenue going forward in the coming quarter. So ideally, the upward trajectory should continue from this base in next 2 quarters?

Sanjay Baweja: That's absolutely correct interpretation. We aim to grow rapidly in the gaming sector also. But also let me mention that in this quarter and the next, we also have new customers coming in from mobile gaming. So we should see some growth there also happening specifically in Q4.

Deepak Poddar: I see quarter-on-quarter growth?

Sanjay Baweja: Yes. Yes. Yes.

Deepak Poddar: And in terms of legacy, our legacy business, I think in the first half, our total revenue was close to about INR 240 crores. So, what is the EBITDA margin there we have clocked?

Asheesh Chatterjee: The impact on EBITDA was also on account of the VI revenue, which was there across products. But we should stabilize at around 18% from mobile entertainment once we catch up. So as Sanjay mentioned, we had good growth in Europe and in the video section, and we will be adding more customers in quarter 4 in the mobile entertainment legacy business.

So, we should see that growth. I think we'll bridge the gap on the back of cost optimization, which we have already done and on the back of growth that we will continue to see in mobile entertainment.

Deepak Poddar: Yes. I understand that 18% is what we are looking at. I mean we should stabilize. Is that what we are looking for FY24 also, 18% EBITDA margin in legacy business?

Asheesh Chatterjee: Yes, it will be close to that.

Deepak Poddar: Okay. And it will be close to 18% in FY24. And I just wanted to know in the first half, what was the EBITDA margin in legacy business? How to think INR 240 crores revenue. So, what was the EBITDA margin?

Asheesh Chatterjee: As of now, we don't report these numbers separately. So, we cannot give you guidance on that precise number.

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

Mithun Aswath: I think most of my question were answered. Just wanted to understand on the Vodafone impact. On an annual basis, how large was Vodafone as a client? And with this change in business model that you mentioned, and they would continue to be remain as clients, what would that figure be on an ongoing basis?

Sanjay Baweja: I mean 18 into 4, we can take straightaway 72. So that would be the annual number. But otherwise, they will have some numbers, because this was a declaration that we made, we've telling numbers by customer. Otherwise, individual customers' numbers are also a matter of confidentiality.

We would not like to talk about that much. But it's a small number, decent numbers, and hope against hope is that, that will grow. But as of now, we've not taken that into our calculations whenever we're doing things.

Mithun Aswath: Right. Now I'm just trying to then say that it was almost a 20% sort of a client, right? So now even despite this hit, there would still be a reasonable...

Sanjay Baweja: No, Nothing compared to what it was very, very small.

Mithun Aswath: Got it. And just one other question was on the cash position. There's been some improvement in the cash balances. Do we see that trend continuing? Because we had several quarters where cash was depleting. But this quarter, we've seen a bump up. So just wanted to get a sense on that.

Asheesh Chatterjee: Cash is expected to remain stable. We'll, of course, keep working on our DSO. But we are also investing behind our gaming launches. So, it's expected to remain stable.

Mithun Aswath: Thank you and all the best, very unfortunate that this happened when things were improving.

Moderator: We have our next question from the line of Prakash Ramaseshan from Pragya Consulting FZE.

Prakash Ramaseshan: As the previous investor said, it's very unfortunate that we had this blip with Vodafone. And I do hope that going forward, some revenues come through from them. Just trying to ask a specific question about growth in the MENA region and how many customers have you signed up here? And what do you expect that 3 years from now in the gaming business as a percentage of overall revenue, how much do you expect the MENA to contribute?

Sanjay Baweja: While MENA specifically didn't tell you but gaming itself will, in 3 years' time would definitely big, they grow bigger than our mobile entertainment. That's almost certain. The way we are progressing. That's almost certain. But for MENA region per se, we have good client deal there. We've got Dubai as a client. We've got Saudi. We've got Bahrain. We've got almost entire region covered. But specific number, we don't have all that, and we'll come back to you on specific number on how many we have in MENA.

Asheesh Chatterjee: We are seeing the uptake of both our gaming products, CA and ONMO were there. And that's the reason of the 13.4% growth that we had this quarter-on-quarter. We expect those numbers to continue to grow because ARPUs in the MENA regions are reasonably good. So, I think we are happy on both the fronts that both the products have uptake and the ARPU is also decent.

Sanjay Baweja: But just to add, Africa actually is very big for us. Almost huge numbers in Africa, I must add, starting from South Africa right up to Egypt, all the way to Nigeria, Kenya, many countries.

Prakash Ramaseshan: Fair enough. And I'm just asking a specific question about the Middle East more to mention, that mobile gaming is expected to be very big here going forward. And with the way the demography of the region is changing. Adoption of entertainment and mobile gaming is going to be very big. That's why I'm trying to get a flavor of the sign-ups you've had here.

Sanjay Baweja: We will specifically come back to you and to the group and we put it on this as to how MENA has improved. But yes, you're right. We are seeing a lot of good traction in Middle East. And they have some key customers, Dubai has a couple of customers and in other countries also, but we will have to specifically come back to exact. Unfortunately, ahead of business head had a medical emergency and not with us otherwise this number would have been in our hand. But nevertheless, we'll come back to you.

Prakash Ramaseshan: Fair enough. So you'll have some kind of a follow-on communication. How do we do this? Or you do a one-on-one by e-mail?

Sanjay Baweja: We'll find a way to reach you. There's the e-mail ID that we've circulated, you can send us a mail also...

Prakash Ramaseshan: I'll send on this specific email.

Moderator: We have our next question from the line of Dhruv Shah from Ambika Fincap.

Dhruv Shah: First of all, congratulations on really steady set of numbers, even though you guys had to take a INR 18.5 crores hit on your top line. But Sanjay, in the last quarter, you had mentioned that this quarter will be flat. So, did you have any indication of the Vodafone Idea during the last quarter's call?

Sanjay Baweja: No. I mean while there were discussions going on with us. It was very suddenly that they were reinventing their thought process, but there was no fixation at that time on what they plan to do.

Dhruv Shah: Okay, right. And did I hear it correctly that you guys have grown 18.5% quarter-on-quarter in gaming ex of Vodafone Idea?

Asheesh Chatterjee: Yes, that's right. That's the reason we were able to bridge that gap. And as we all mentioned, quarter 3, quarter 4 is going to be even better. And we'll see this base then growing rapidly going forward.

Dhruv Shah: As per my last conversation, you guys are going to launch ONMO in Europe and U.S. in this current quarter. Are we in line with that?

Sanjay Baweja: Yes, we mentioned. We said that we expect 5 to 7 European customers to go live within this quarter.

Dhruv Shah: Got it. My other question is on the margins front. If you include the other income which you guys do in the presentation, you guys have shown an improvement. But going forward, do we expect the margins to improve from Q3 and Q4? Or is the incremental revenue going to go into your marketing spend because your marketing spend has come off in this current quarter?

Sanjay Baweja: Yes. So that is expected. We will have many new launches happening customers going live in this quarter. So, the marketing spends, like we always say, for any new geography, any new operator. The initial marketing spurt is much more disproportionate to the revenue that we see there at least for the first quarter itself and then it kind of starts to stabilize slowly, and we then get to a level which makes it hugely profitable. And at a stable level, for example, we see a 30% kind of EBITDA at a gaming level. But in this quarter, specifically, we will see many launches. So therefore, what I said, that there will be volatility in the margins because the marketing spend is likely to be very big.

Dhruv Shah: But correct me, Sanjay, if we are going live in Latin America with one of the largest customers there, right? So shouldn't that get mitigated in this current quarter?

Sanjay Baweja: The moment you go live, you end up spending on marketing. You go live, you because you want to get the consumers, we don't spend marketing for getting a customer. We spend marketing on getting the consumers in that customer. And so, every time, for example, if we go live with 25 new customers in this quarter, we'll have to spend substantial marketing dollars to get consumers in those 25 accounts.

And what we went live in this quarter, which is the Q2 we just ended, there again, we'll have to spend money on getting those consumers. So that's how typically a type of work. The first 2 quarters are not profitable, if I may say, for a new customer, some of them get very quickly get optimized. But otherwise, the first 2 quarters for any new customer, it takes time for us to become profitable. But beyond the 2 quarters, there, it starts to get profitable. That's how the cycle works.

So therefore, in this quarter, because we're going to have many new launches and which is a great thing, we could do a steady thing. We don't want to grow, but let's get more profit, we can do that. But that's not the aim. Our vision is to get 200 customers because then we want to be much more profitable for a much larger revenue base. And that's the aim, and we expect that to happen as we go along in the coming quarters.

Dhruv Shah: But the Latin America customers for mobile entertainment, right? It wasn't for the gaming part,

Sanjay Baweja: So, they are going to be for both. So yes, we started with them with CA and now we've got RBT, you're right. That launch is likely to happen by the end of this quarter, Q3 that is or early Q4, but the revenue will start coming in Q4, largely because as we get their consumers in and the marketing spend is not as much in the RBT business or the mobile entertainment business. But having said that, there will be 25 new customers in gaming, which will have a marketing spend.

Dhruv Shah: Right. Great. And last question for Asheesh. Where do you see the DSOs days, we can bring it down. You guys have done a commendable job to bring it down by 20 days this quarter, but where do you see this settling now?

Asheesh Chatterjee: This is more like a stable base, but we'll keep seeing optimization as we go into more Tier 1 markets like Europe and that contribution starts becoming bigger. So, we'll target 90 as our sweet spot as we kind of get the mix, the target, our launches in specifically markets like Europe and North America.

Dhruv Shah: Okay. And Asheesh, is the restructuring done majorly and most of the benefits has been accrued in this current quarter? Or you see some more restructuring happening as far as the opex and the employee cost is concerned?

Asheesh Chatterjee: It's an ongoing thing. We look at 2 pieces differently. So at mobile entertainment, we want to be one of the most efficient and highly productive mobile entertainment business globally. And on the gaming piece, we are currently investing. So, as we kind of get into maturity over there, there will be opportunity to optimize there. Cost optimization is never something it's an ongoing thing. We keep optimizing as we go along.

Sanjay Baweja: But having said that, on the people front, we don't expect any further optimization. I think we've done a lot. We had to do one because of this episode that happened, it's very tough to let go of your colleagues. It's a tough call, which we had to take for the sake of business. We did that earlier for efficiency. This time, we had to do because of the one customer that we had.

I think that's over. As they say, never say never, but my sense is, that's over. And we don't believe that we are in a phase because now we are at the absolute barebone levels as we grow in customers at some point in time, we will need to increase but as a percentage of revenue, our cost is only going to go down because our revenue will grow much more rapidly than anything that we can do with the manpower cost.

Moderator: We have our next question from the line of Kumar Saurabh from Scientific Investing.

Kumar Saurabh: This is the second quarter when we have done the 9% EBITDA margin, which is a great change as you have been telling from last 3, 4 quarters. So, we know that now 25 more customers are going to join in mobile gaming, but we also have 75 customers who are live. So, this is almost a 3:1 ratio.

And then there are some more customers going live in ONMO. My question is combining all of this existing customer, new customer and all, what is the future projection? My understanding is this 9% EBITDA margin is the new normal and we should only grow from here because the old business has come back to 18% margin. And the new business, which is gaining, if that has to do a 25%-plus margin, then we should only improve from 9% margin. So, what is the trajectory you see?

And second question is, as a result of that, my understanding is now the cash on the books is only going to increase, and we are done with all the investment, though the investment will continue, but this should be good enough to lead to a lift in cash on books. So what is the overview on these 2 things, combining all the investments, marketing expenses, all of that?

Sanjay Baweja: Yes. Let me answer your second question first. Last quarter, I said that by the end of this year, we'll be higher in terms of our cash that we have. So, we've done that already. Now it will be stable because like you rightly said, we will generate enough cash to put the investment, whether it's for the marketing or whether it's for the R&D that we continue to do from a product angle. So that's settled, that's clear.

From an EBITDA percentage perspective, like I mentioned, one could expect volatility in the coming quarter because of the investment in marketing may be huge. Already the current customers are live. We are investing in them also. At the moment, they have not all stabilized. Otherwise, our margins would have been a very different number because 9% is no normal for us. Our aim is much higher and much better, and we don't believe 9% is normal. But for the time being, there could be disruption in the percentages. And I would not want to comment a number because I cannot, but there could be volatility as we go along. But then as we stabilize, we will see a much better numbers as we go along. But yes, for the next quarter or so in that, there could be some volatility in profit.

Kumar Saurabh: And sir, my basic question on the P&L. We have like INR 136 crores of gross revenue. And there is some COGS, which says that COGS includes UFF. Can you elaborate on what is this COGS? And as the revenue increases, because earlier you had said people cost and marketing costs. These are the 2 big cost items. So is there any possibility of lifting margin at a gross profit level, if you can just elaborate on those COGS part?

Asheesh Chatterjee: The gross margin has already increased by 3.3%. You would have seen that it's gone up significantly. And yes, COGS is largely a function of content and hosting cost and upfront fees that we paid for one of the video business, which gets amortized. So that's what sits in the COGS. And gaming business has a significantly higher gross margin. So, we should see gross margins actually improve as the gaming revenue contribution starts improving.

Sanjay Baweja: I think your question is probably also coming from a slight dip that has happened from last quarter to this quarter, and that's because the mix changed. The gross margin for video business, because the content cost is slightly higher there. And since the gaming business was not as big relatively and it's a mix issue, which happened where the mobile entertainment business or the video business became bigger, and that's only very temporary because like I said, gaming business will continue to grow while this will also growing, but obviously, the gaming business will go much more rapidly.

So, despite this disruption which happened in this quarter, we will see that improvement happening. Only in this quarter because there was a sudden change, you've noticed a slight reduction in the COGS percentage. But otherwise, as we go along, this improvement is a certainty.

Kumar Saurabh: Glad, sir, you clarified that. if I take the P&L 1 year, 2 year down the line, these are my assumptions. Let's say the old business might grow at 4%, 5%. It is the gaming business, which will grow at a higher rate. So ultimately, and because the gaming business is a platform business and typically platform businesses have fixed people costs. So, my understanding is our gross profit is going to improve.

The gross profit margin is going to improve. The people costs should more or less remain same, maybe a 4%, 5% kind of lift. It is the marketing cost, which will increase proportionally because it needs to drive the revenue. And that is how the final improvement in EBITDA will come mainly from the gains in the COGS level and gains at a people cost to revenue level. Is my understanding correct from a P&L perspective?

Sanjay Baweja: Yes, I would not like to comment on exact numbers. But your understanding of the trends, et cetera, is absolutely correct.

Moderator: We have our next question from the line of Chethan Dhruva, an individual investor.

Chethan Dhruva: A couple of questions. So, are we on track for the INR 600 crores revenue indication that you've given last quarter, sir?

Sanjay Baweja: We're basically trying to be as close as we say in Cricket, we would have kicked it out or hit it out of the park, had this Voda episode would not happen. But unfortunately that happened. So yes. But we'll try to be as close as possible.

Chethan Dhruva: Got it. So the next question was, I think you answered this, but just from my reconfirmation. So the impact of Vodafone Idea to the maximum extent that it could have had an impact has already been taken in Q2. So therefore, there's no further negative impact from that account, right, going forward?

Sanjay Baweja: I think now this number of this quarter already has taken into account the reduction. Now there is no further reduction on count of Voda Idea that this is after the reduction. So now whatever we get growth from the other customers will only grow.

Chethan Dhruva: I understand. Sir, if I may ask, if not confidential, what was the model change that can cause the revenue impact from gaming and entertainment point of actually these services, right? And what kind of model change is it that would cause an impact for us as a service provider?

Asheesh Chatterjee: Yes, this is a largely in a layman's language, if I were to tell you the process in which the user subscriber is actually. The wallet is used to kind of purchase our services. That methodology has been altered. So that's how that's it

Chethan Dhruva: So the budget for this portion of the services they provide us, got unlisted. Is that a correct thing to say?

Sanjay Baweja: Yes. I think let's discuss our model. Let's now discuss there. This will happen while get into what they are doing. I mean, I think they probably know what's best for them, but it has impacted us. Let's just leave it at that.

Chethan Dhruva: I mean, the reason for asking is, is there something that's going to come back later because of a change in model? Or it's kind of not going to come back?

Sanjay Baweja: That possibility is always there, we will not count too much on that. We are saying, if it comes, that will be great. But if it doesn't happen, then we are good. We continue to we work with them. They are a very good customer to be honest, except for this episode that has happened, but we will continue to work with them because they are essentially a good customer for us.

Chethan Dhruva: Got it. So last question was on the U.S. and Europe expansion that you're planning now, how are the operators going. Do you see any impact of the macros in the U.S., things are slowing down and finally, right some jobs, recent jobs that are…

Sanjay Baweja: No, not really, in fact, like we just mentioned, Europe is showing better traction. If the impact would have been there that could have been in Europe. But no, Europe is now showing traction. We will go live with a few customers in this quarter. Actually, no real impact as far as our business is concerned, and we expect that the traction that we've seen will grow and we'll get even more customers in the coming quarters. But this quarter itself, we should see 5-plus customers coming live.

Chethan Dhruva: I see. That's wonderful. So basically, you're not getting any hints of slowdown even from the operators that you are signing up?

Sanjay Baweja: No. In fact, they're just signing up. So now we will go live with them.

Chethan Dhruva: Right, only one thing about the ramp-up. Once you signed up the operator, your revenues would depend on the ramp-up that happens on the user base, right? If that kind of slows down then?

Sanjay Baweja: That is correct. The ramp-up that happens from the user base and the marketing spend that we do. And that's what we keep talking about that the marketing spend in this quarter, because our aim is to ramp-up pretty rapidly in this quarter with many new customers coming up. That has an impact on the overall number because the marketing is a very essential part of our business.

Chethan Dhruva: Okay. I Understood. So if I understand your model, it's one of a B2B2C model, right? You service via the operator, you service the customer. So you actually have to spend money to actually get the usage of the games and your gaming platform, while at the same time, you share a portion of that revenue with the operator most likely. Is that the way it is?

Sanjay Baweja: Yes. We are basically essentially B2C, but it's through an operator. So therefore, it becomes a B2B2C.

Francois-Charles Sirois: Just to just clarify and for everyone to understand. It's exactly like using the App Store where Apple and Google collect the money and pay out the content providers. We're using the operator instead of the App Store. So, every single operator is like an App Store, where we use their billing and they pay us back. So, it's really truly a B2C business in partnership with the operator. So, we call them customers but they're actually partners.

Chethan Dhruva: So, the operator doesn't really need to spend anything to enable you to reach out to their customers, right? It's basically OnMobile setting up the connectivity and then reaching to the customers in the market?

Francois-Charles Sirois: I think sometimes the operator does get involved and help us and do special promo, which offsets, obviously, so we do the marketing costs, especially when we launch new services. But over time, we spend the marketing.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Francois-Charles Sirois: Thank you all. Thank you for joining this quarter. Just as I said, one customer is not our business. So now the big task in the next 2 quarters to replace the money marketing dollars that we spend with that customer across 100 new operators that we have now.

So as Sanjay and Asheesh said, we'll take some adjustments in cost of marketing and ramping up these carriers for the next 2 quarters, and we will be back as business as usual. So, looking forward to speaking to you in February on our Q3 call and wish you a very best Diwali. Thank you.

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