“OnMobile Global Limited's Q3FY23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the OnMobile Global Limited Q3 FY'23 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Jagtap from EY, Investor Relations. Thank you and over to you, sir.

Pratik Jagtap: Thank you, Inba. Good day and welcome to the Q3 FY'23 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 Efrat - 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; Nir will give a brief update on ONMO; Asheesh will update on the 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 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 call to Mr. Sanjay. Over to you, sir.

Sanjay Baweja: Thank you, Pratik. Thank you all for taking this time out today to join us. I hope you're all doing well.

I want to start by wishing everyone a very happy and prosperous new year. The results and the presentation are already hosted on our website and hopefully all of you had a chance to look at them.

As usual, I'll give a brief update on our products and business, and then Nir will talk about ONMO product a bit, and then Asheesh will take you all through the highlights of the financial performance.

So. let me begin with the updates on Challenges Arena:

Throughout the quarter, Challenges Arena sales has seen a very healthy growth. Revenue from Challenges Arena during the quarter grew in line with the number of customers who went live last quarter. Last quarter, six customers went live and as a result on 31st December 2022, 35 customers were live, which is an increase of about 21%. CA revenue increased more than 50%

quarter-on-quarter and nearly seven times year-on-year. And it was in fact increased 21 times since its inception. In Q3 FY'23, 12 new customers agreed to our terms for Challenges Arena, taking our cumulative agreements to as high as 62. The continuous increase in customer agreements will reflect in the coming quarters from a revenue perspective. We expect the momentum to continue and these cumulative agreements to reach around 67 by the end of this financial year, driven by successful outbound sales and efforts resulting in an increased sales in FY'23 and FY'24.

As on Q3 FY'23, out of the total 62 customer confirmations, the geographic split is Middle East and Africa is about 39%, followed by 31% in Asia, 19% in LatAm and 11% in Europe. Our plan is to double down our focus on MEA and Asia where there's a large amount of addressable market that we see. There is also an untapped market in LatAm and Europe as well, which we will look forward to. Further, out of the 62 customers, 45 are actually new logos, which is almost 73%. And these clearly serve as evidence of our noteworthy success both in terms of sales, and from the perspective of our potential future chances for cross-selling other products to them. We are continuing to see a healthy pipeline and expect to be live and sign many more clients in the coming quarters.

In terms of usage and actual consumers, the cumulative gross paying subscribers at the end of December 2022 stood at about 13.6 million as compared to 10.5 million at the end of October 2022, a growth of 29.4%. We are targeting to touch 17.6 million subscribers in Q4 FY'23.

Challenges Arena net active base increased to 3.1 million from about 2 million at the end of Q2 FY’23. We are now targeting to touch about 3.8 million subscribers at the end of Q4 FY'23. To achieve the base of this first 1 million subscribers, we took almost four quarters. But as of Q3 FY'23, we were at 3.1 million active subscribers, which was an addition of a million plus subscribers within a quarter. This gives us confidence this CA is well positioned in the market and it also puts us in a great position to benefit from the revenue growth in the coming quarters. The current momentum is a lead indicator of the revenue growth we expect to see.

Would like to reiterate that this is a subscription business and that revenue will increase enormously as we continue to add subscribers. Indeed, we believe that Challenges Arena will significantly boost our revenues in the coming quarters. Revenue from Challenges Arena like I said increased by more than 7x year-on-year, it has grown close to 21x in the last seven quarters and shown as high as 52% growth quarter-on-quarter in this quarter itself.

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

As stated in previous earning calls, we are currently in the investment phase, investing in growth through disproportionately high marketing spend, particularly in the new geographies or operators with whom we go live on a quarter-on-quarter basis. As we go live with more and more customers, there is initially an increase in terms of the marketing spend that we have to do with that particular operator.

Having said that, let me add that we accrue higher gross margins as the revenue mix skews in favor of the new products like Challenges Arena. We anticipate this to continue resulting in an improvement in the profitability going forward. As you're all aware, the Challenges Arena has a significantly higher EBITDA as compared to our existing product. We expect CA to generate an EBITDA of more than 30% in the coming quarters.

Coming now to ONMO:

As informed in the previous calls, ONMO B2B business has started generating revenue for us in the last two quarters; As on 31st December 2022, we had 18 customer confirmations, out of which four are live. Cumulative approvals are likely to reach 23 by the end of Q4 FY'23. Revenue witnessed the growth of 77% quarter-on-quarter.

We continue to see strong traction among the prospective customers. We are confident of generating higher B2B revenue in FY'24. Also, please note that we are expecting at least four more customers to go live by the end of Q4 FY'23. So, we are at four now and the expectation will be 8 by the end of this current quarter which is the Q4 FY'23.

Let me also update on the Tones and Video:

Let me start by saying that the legacy business is evident from the numbers has been a bit of a challenge in the past few quarters. And may I say the past few years. However, the new customer relationships that we have formed due to CA has enabled us to cross-sell the tones business across various operators across the globe. We have got five new customer agreements, where one customer is already live and the others will go live over the next couple of quarters, some in this quarter and the balance next.

Further, I'm really pleased to let you know that we have received another customer confirmation from a large customer who has operations in five countries for the tones business. This will go live over the next few quarters again and we will give you details as soon as we can in terms of the logo etc. This is giving us real confidence about the stability and growth of our legacy revenue in the next year. However, for this quarter, we saw a drop of 7.3% on tones revenue due to low revenues in a couple of customers. Video also degrow, about 2% quarter-on-quarter due to some customer actions that we had.

Lastly, let me briefly mention about our employees:

We've had a very stable workforce and in fact attrition levels have been reduced over the last six months. And we continue to strengthen our teams for two new businesses, both CA and ONMO.

With this, I would like to hand over the call to Nir who will talk about ONMO and after whom, Asheesh will talk about the financial performance. Over to you, Nir.

Nir Efrat: Thank you, Sanjay. Yes, hello again, everyone. My name is Nir Efrat and I am the CEO of ONMO.

As Sanjay mentioned, we're starting to see the traction and ramping up for ONMO operation. We're not aligned with several telcos, but, we have quite a long list that's getting longer of new telcos in the pipeline that will go live this quarter and then the following quarters ahead.

The team has been busy working on three main streams. The first one is to really reshape and reinvent our operations. Where you allow everyone, the product team, the B2B teams, the sales team and user acquisition team, along with server deployment teams to really go live faster in a very smooth way and be available for reserves very fast. And I'm happy to say that we have managed to do that, and now we have a well-oiled machine to support the onboarding of ONMO and rolling out with customers.

The second stream is improving the product. We're building a world-class product, that is meant to create a much higher level of engagement and retention, and the key elements of that is social engagement. We're very happy about the direction the product is going, and it's supposed to create very sticky, viral and engaging experience for users around the world.

And the third bucket is getting more and more titles and premium content from content providers. We're now in talks with several key content providers in western markets and other markets in order to engage with them and add their games into the platform. We're going to share some news soon about that. I'm very excited to be able to offer many users of ONMO, a AAA and premium content in the app. And that's it for me. Now, turn it over to Asheesh.

Asheesh Chatterjee: Thank you, Nir. A warm welcome and thank you everyone to join us on this call. I'll share the key financial highlights for this quarter and nine months-ended December 31st, 2022.

In terms of the nine months FY'23 performance, we reported revenues of INR 415 crores, a growth of around 1% on a year-on-year basis, gross profit grew by 4.3% to INR 210 crores and a gross margin improved by 150 basis points to 52.9%. The growth was primarily driven by Challenges Arena.

On the cost front, in the nine months FY'23 due to higher investments in CA and ONMO, our marketing expenses have increased by 91.3% YoY. EBITDA stood at INR 10.7 crores with a margin of 2.7% for the nine months FY'23. Our profit after tax is INR 8.8 crores, with a margin of 2.2%.

In terms of Q3 FY'23 performance, we have reported revenues of INR 137 crores. Gross profit witnessed a growth of 3.4% on a quarter-on-quarter basis to INR 71 crores and our gross margins improved by 170 basis points to 53.9% quarter-on-quarter. On the cost spent in Q3 FY’23, marketing grew by 10.5% again primarily due to investments in new launches. EBITDA stood at INR 2.7 crores with a margin of 2% for the quarter. The increase in EBITDA was due to improvement in gross margins, which is largely on account of revenue mix, which is increasingly in favor of Challenges Arena, which enjoys a much higher margin versus our legacy business. Our profit after tax is INR 4.1 crores. Our PAT margins for the quarter at 3.1%.

In terms of geography, India has registered the highest growth at about 30%, while Asia follows it up with 20% growth on a YoY basis. During the quarter, we also incurred R&D of product development expenditure of INR 21 crores as we continue to foray into the space in gaming. A lot of operating metrics and data have already been shared in the presentation deck. I'm sure all of you have access to the same. Some of the metrics are being shared for the first time, give you more visibility on 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. Thanks all for logging into this call. I want to start by talking about consistency. It's very important for me to be consistent in what we say to our team, what you say to our investors and what we deliver. When we look at the first item that we announced, which I'm quite proud of is the growth of Challenges Arena. It is consistent and as planned actually. So, the team is really delivering on this, and the growth will continue. So, for me, that's a good mark.

ONMO following CA growth, it is our target to at least meet what CA is doing this year, for ONMO in the coming year, and that's exactly where we are in a revenue path. So again, consistency on this. Tones are stable. As we mentioned at the beginning of this year, that tones will be stable on a yearly basis. We have a small hiccup last quarter, this quarter, but again, if I step back and look at the year with tones, especially now that we signed new customers coming in the course of the next quarters, we can say that the tones and legacy business will be stable at least which will help. So, for me, consistency is important, and that's what the team is delivering here. So that's the first point I want to share with you.

Second one is I want to come back on Challenges Arena again and look at the materiality. Before Challenges Arena, we're really small, so it didn't have much impact. Now, it's really a key quarter for us as you can feel the impact of Challenges Arena. It is getting material and grew by INR 60 million this quarter. We're passing the 10 million run rates, and you see it already in the gross margin changes. So, as we move forward in the next quarters, the size of Challenges Arena, the size of the revenue and the size of the profitability will have an impact on the business, and we are seeing it right now.

To that, and also, the marketing dollars, as you can see are increasing. And that's again, I don't want to repeat myself, but that's something we've mentioned in the past calls where we need two quarters to really launch and invest in marketing, before we start making real money on the operator. But the first initial launch is the cost of marketing. So again, we launched this quarter a lot of operations, a lot more than the quarter before, so, you see the marketing expense growing. Now, it was part of the plan, so, it will keep ongoing as we onboard more operators. We have many operations right now both with CA and ONMO with thirty-nine operators. It is a diversified revenue mix. With a lot of operators in key markets, having an important revenue. So, it's really a mix, it's not driven by a couple of operators, it's really diversified, and obviously, we're focusing on key markets with key operators; first, especially with ONMO, now to have the biggest impact early on, our strategy is working.

And I just want to finish on this thought here. When we look at all the revenue generated today with CA and ONMO, we have more operators, when we look at how many operators in the backlog, we have today 43 operators, 27 with CA, 16 with ONMO to launch. So, we have more operators to launch right now that I've already said we're ready to launch then what we have live. So, that's the kind of revenue that's coming up in the coming year. And obviously, we're not stopping there, we're signing more and more operators. So, for me, it's a confirmation of the plan. And I want to make sure that investors understand what we're investing, because we are investing in this growth, and I'm quite confident that it will pay back in the coming year. So, that's what I wanted to share today with all. So, let's open the floor for questions please.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We'll take the first question from the line of Dhanish Jain, an individual investor. Please go ahead.

Dhanish Jain: Sir, I have three basic questions. The first question is on the Challenges Arena revenue. Sir, with the strong pace of growth, can you provide guidance for the quarterly revenue for FY'23 or FY'24? And my second part is on margin side. Company right now is in investment phase, putting higher marketing expenses which is impacting margin. So, when you expect to be a stable margin or normalized marketing expenses which can aid to higher margin, or we can assume like by Q1 or Q2 of FY'24, we can expect margins start improving? And my third part is on, if you provide some update on the fundraising plan, what is going on, or company is having any plan to monetize the current investment or part of an investment in Chingari?

Sanjay Baweja: Thank you for your questions. As far as Challenges Arena is concerned, like we said, it will continue to grow rapidly. Then you asked about how the next year would look? Our target would be that we at least show you a triple digit growth year-on-year. So, whatever we do for this year, we should more than double in the next year on an overall basis. While I can't give specific numbers from a target perspective, but clearly it will be a triple digit growth that we are looking at or targeting ourselves. And yes, you're right, this is the investment phase. From a process perspective, from the way it works is that every new geography, like FC also mentioned, the first two, three quarters are towards the investment and then the profitability starts improving. Now, as bigger and bigger base becomes more than two, three quarters old, we will see profitability improving pretty rapidly. And you're right, Q1, Q2, Q3 next year will have significantly better profitability as compared to the current numbers, because like I said, the base of Challenges Arena customers who have been there for two, three quarters will grow, and therefore the profitability is bound to grow. As far as fundraising plan is concerned, we continue to look at those aspects. But having said that, our need for fundraising is mostly from an ONMO perspective, where again, the investment is going there in terms of the product development, like Nir mentioned, we are continuing to refine our product into a world-class product. There are no specifics, but we have enough options from an equity perspective, which we are working on with people and debt where we have numbers already with us in terms of banks wanting to give us the funding. So, we are still deciding as to what is the best way forward from a company perspective. Hope that answers your three questions.

Dhanish Jain: Is company having any plan to monetize the current investment in Chingari, or you can provide the current valuation of the investment we did in Chingari?

Sanjay Baweja: Obviously, I can't give the current valuation for Chingari, because they've not had a recent transaction really. But the estimate is far higher than what we invested in, but we don't know that. They are in the process of raising funding. Looking at the market's stats have been there, I think, although the numbers will probably be greater than what we've invested at, we can't put a finger on what exactly is the number. And yes, we will look at diluting or exiting Chingari at some stage but may not be immediate.

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

Mithun Aswath: I just wanted to understand for the next year. You mentioned that you could double the Challenges Arena business. Even if you were to do that, on an overall level, what sort of revenue growth are you going to see? Because I'm just looking at your numbers, from FY'19 to now we've actually been flat or have been declining in terms of overall revenues or even if you look from FY'18, we were at about INR 630 crores of top line and now we're at a run rate of about INR 520 crores. Even if I assume Challenges Arena doubles in terms of the run rate in FY'24 and the remaining business remains flat, we will touch maybe around INR 600 crores. Is my working, right? That`s is my first question.

Sanjay Baweja: Your working is not completely right. While you added the numbers of Challenges Arena. I was answering only for Challenges Arena. ONMO, we're going to have a multiple triple digit growth. While we may get a 2x for Challenges Arena, for ONMO, we may have a much higher number, and I don't to get into the detail of how much higher, but that's also the base is smaller. But having said that, it will be a very different triple digit growth. So, that's the second part. The third part is, I mentioned initially when I spoke is that even for tones business, we expect some growth. I get where you're coming from in terms of 2018 onwards. I mean, our biggest challenge is to get to that first 2018 number. We will go towards that. How far we reach that or how close we are to that or whether we cross it, I won't put a finger on that, but we are gunning for that number for sure.

Mithun Aswath: My second question was on the marketing spends that you're doing, initially is bearing fruit in terms of customers and subscribers. I just wanted to understand once you have all these operators onboard, what would a normalized marketing spend look like? And if you could also give details on what is the revenue from the ONMO part, apart from the Challenges Arena?

Sanjay Baweja: The marketing spend on a on a sustained basis is below 50%. And this is a product where the gross margins are as high as about 90%-odd. So that's the range we're talking, it'll be below 50%, and I can't give specific numbers, because continuously we've seen changes happening because many new operators keep joining, and we have a uptick, and then we have a clear reduction. Our aim is to get to a number which is in its 40s in terms of the marketing spend, and therefore, the balance, a lot of that will go towards profitability. What is your question on ONMO, sorry?

Mithun Aswath: What is the revenue there? You've not mentioned I think in your presentation.

Sanjay Baweja: It's a small revenue. We are growing rapidly. We're not mentioning yet about revenue, but let me assure you next year onwards, we will start mentioning that separately on an ongoing basis, it's a small revenue yet, like we started with Challenges Arena, in the first few quarters, we didn't really mention the specifics, but we will start doing that come Q1 of next year.

Mithun Aswath: There has been a massive deterioration in the cash balance that you've had from over INR 260 crores in Q4 FY'21 to now only INR 73 crores. There has been a substantial cash burn to achieve whatever you are doing right now. I just wanted to understand even in this quarter you have a product development cost of close to INR 20 crores. I am not getting clarity in terms of where this money is going. Is it for new games? What are you spending this on? Is it a one-time marketing spend? Because don't you see this could be a risk if the subscribers come onto the platform on the telecom operators that are on and then later if they stop, I just wanted to get a sense of how this model will work compared to your tones and your videos business which has been largely stable over the years?

Asheesh Chatterjee: Our marketing investments are more like working capital investments that happened when we kind of launch an operator. So, there's a CAC payback of two to three months. So, whatever we kind of spend behind acquiring a customer eventually comes back to us in form of subscriptions over two, three months period. So, you do have a teaming leading or a timing difference between when we are in the launch phase, when we are acquiring a customer, and when the customer completely breaks even in terms of return of the CAC. In terms of investments, we continue to invest behind ONMO, which is one of our biggest product development initiatives we have taken up in the company. So, our internal accruals, we believe will improve as we go ahead, Q3 was a little tough quarter, but I think we see new accounts getting added even in the legacy business, so, we will see improvements both in margins and operating profits going forward. And we will look at alternatives of augmenting our cash reserves. We have been always a debt-free, dividend paying company. So, we have enough elbow room to do that.

Sanjay Baweja: Let me just add to that. While you asked about Challenges Arena, let me say that the Challenges Arena is profitable for us, and going forward, it will become more and more profitable. So, to your point of whether this investment is going towards the marketing, no, Challenges Arena is now at a stage where it is taking care of itself. I think the bigger spend is towards the product development that is happening in ONMO, and that's where our biggest focus is, because Challenges Arena is our present this year and the coming year in terms of revenue growth the year subsequently will show ONMO growing pretty rapidly, and that's why the investment is moving into ONMO in a big way, and that's where you'll see huge growth coming over the next three, four years and beyond.

Mithun Aswath: Just again on this product development expense of INR 20 crores in Q3 and then is about INR 16.7 crores in Q2 and INR 15 crores in Q1, what is this essentially going into if you can kind of make us understand what actually the spend is going towards, because if marketing spend is different what is this spend going towards? And what kind of return on this we expect over the coming year or so? I'm not getting a sense of where this money is being spent.

Asheesh Chatterjee: Product development largely goes into salaries. So, we have R&D centers in Sweden, Montreal, and we have teams sitting in US as well as India. So, a large chunk of it goes towards developing our cloud gaming product ONMO, and we already spent a good amount over there. So, that's where that piece is coming. As ONMO is a unique platform, which has that snapshot technology as well as the streaming technology. So, that platform which we have been building over the last few quarters. As we ramp up the launch of ONMO across multiple operators, we will move to a commercial live and we'll stop capitalizing these expenditures in the coming quarters. Just to add to one of your questions in terms of what was our ONMO revenue. I think we have mentioned in our presentation for this Q3; it is INR 4.6 crores.

Moderator: We'll take our next question from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: My first question was that in Q4 FY'23, you are showing the subscriber growth. When one compares to over Q3 FY'23, it's much lower than in the preceding quarter. So, is it just the nature of the ramp up with the telecom clients that you have signed, which is why the growth in Q4 FY'23 and the subs maybe not as good as what it has been historically or what's going on basically there?

Sanjay Baweja: Are you talking about our net active subscribers? What is the question that I couldn't get it? I'm sorry.

VP Rajesh: I don't have the presentation in front of me. But in one of your charts, you're showing the customers you're going to add in Q4 FY'23, which is four-point something, and quarter-over-quarter growth in Q3 FY'23 also, you added about four, I think. So, my question is that this is not the kind of growth that you have, that one has been seen in the previous quarters. Also, given the number of telecoms it seems a very low growth compared to what we have been historically in the preceding three, four quarters. So, just curious, if it is a one-off, and some of the partners will start ramping up in Q1 FY'24 or is this sort of the new level for your subscriber growth?

Sanjay Baweja: This is a kind of cumulative business where subscribers keep coming in and yet there's an element of churn. But as more and more customers are there, then the amount of overall subscribers will continue to grow, for example, what I mentioned, we were able to add a million subscribers in a quarter, maybe we'll do that even earlier for the next quarter. So, I think very clearly, from 10 customers to now 35 customers and going beyond in this quarter as we speak, we will have much larger base of consumers from an addressable market perspective, and therefore, our ability to add more and more consumers there and every consumer is a paying consumer to that extent. So, yes, there is an opportunity to get more and more consumers as we go along.

VP Rajesh: So, you're saying Q4 FY'23 quarter growth that you're projecting is an aberration and there'll be more growth quarter-over-quarter in the number of subs that you add, is that the way one should understand it?

Sanjay Baweja: Four million is a good number. Please remember, in Q2 FY'23, if you recollect, we had some issues and therefore the Q3 FY'23 number is a larger number as compared to Q2 FY'23, because if you recollect, at the end of Q2 FY'23, we had said that there were some customer issues which had impacted us a bit, especially in September itself. So, we came back sharply. But please also remember that although these are smaller things, but this has lesser days in terms of a quarter being a February month, but all of this broadly we will continue to grow at this pace, and maybe higher as we go along. So aberration or not, our growth pace will continue to expand is what I'll say.

VP Rajesh: And then on the base business, can you share what has been the decline in revenue for the first nine months?

Asheesh Chatterjee: It's largely relatively flat; 1% growth in revenues over year-on-year nine months.

VP Rajesh: The question really is that do you think in Q3 FY'23 that legacy business has stabilized, and as you are saying that you are getting more customers in tones and videos, so what kind of growth can we expect in fiscal year FY'24, I'm just talking about business, or could we see a double-digit growth in that business?

Sanjay Baweja: For next year specific numbers, I would not like to give, but it's very difficult to put a finger on this, because there is an element of customer getting involved into some marketing actions that they might want to take. But we will definitely see growth, whether it's double-digit or around that, would not want to put a finger on that one as yet. While I'm particularly sure about Challenges Arena and ONMO, from a legacy perspective, you will see growth for sure, I would not like to put a finger on from a double digit or whatever, I think as we go along, we'll give you more clarity maybe in the coming quarters.

VP Rajesh: But you expect the growth in that business in fiscal year '24 even if, let's say a mid-single digit growth?

Sanjay Baweja: That's our target. We hope to achieve that.

VP Rajesh: And then on the marketing spend that you did this quarter, if you can give some ideas as to how much was it for ONMO versus Challenges Arena?

Asheesh Chatterjee: Largely, 50% of the costs is towards the new businesses, Challenges Arena and ONMO.

VP Rajesh: And the remainder is for the legacy business, right, is that the way one should understand that?

Asheesh Chatterjee: Yes.

VP Rajesh: And then on the Chingari side, you commented about the valuation. But my question is more on the business synergies that we were thinking about when we made that investment. So, how is that objective panning out in terms of getting direct consumers for the D2C business of ONMO?

Sanjay Baweja: So, as of now, we've shifted our stance for the correct reasons in terms of large amount of funding, which would be required from a D2C perspective. We now focus more on B2B business even for ONMO over the next two, three years, and our focus is to gain a critical mass there where we are across the globe with our network. And post that is when we will focus on getting to D2C, because as Nir mentioned, during that timeframe, the finish of the product will also get finer and finer, and the world-class product, which is now getting there, will get even better. So, to that extent, Chingari is not as much being used by us because the D2C part has taken that shift. So that's where we are as of now.

VP Rajesh: So, then given the situation of our balance sheet, would you consider monetizing that particular investment in this round?

Sanjay Baweja: Yes. So, this round they're doing probably a bond round. But, whenever the next round happens, we will give it a very, serious look in terms of monetizing, maybe even earlier, but definitely in their next round of equity, we will give it a serious, talk, and obviously, the board will take the final call, but we will definitely look at very serious consideration in terms of getting that cash because like you've rightly pointed out I think our need is the cash and whenever we get that opportunity, we will seriously look at that.

Moderator: The next question is from the line of Prakash Ramaseshan Prakash R from Pragya Consulting. Please go ahead.

Prakash R. Prakash R: The question I'm asking is that as I see the turnover, 85% of the turnover presently is legacy and 15% is CA with a very small amount of ONMO. And if I look a little bit beyond next year, do we see that CA and ONMO having similar numbers as the legacy business in terms of overall numbers, and, of course, hopefully better EBITDA because by then the marketing and the business development spend should be done? I'm trying to understand like as an overall business, when do we get to a point where the one-time business development is done, the one-time marketing costs are done, then we get to some kind of stability in terms of EBITDA and revenue growth?

Sanjay Baweja: So, you're right, we expect both Challenges Arena and ONMO to be as big or bigger than our legacy businesses. So, we've got two parts of legacy business, tones and videos. We expect both Challenges Arena and ONMO to be bigger than those. You're right, whether it happens in two years from now, or maybe a third year from now, but definitely that's what is likely to happen clearly from our perspective, that's what we are aiming for. And also from a profitability perspective, the maturity of the profitability comes from geography-after-geography or precisely operator-after-operator, and like FC also mentioned, the moment the two, three quarters are over, it starts to get into the mature state where we end up making 30%-plus kind of margin in a particular operator. Like we said, this is the time of investment for getting more and more customers and thereby getting more and more consumers. So, initially whenever we launch a new customer, there is a definite much bigger chunk of marketing spend in terms of percentage of revenue, but it settles down in their 40s over time. And therefore, like I said, for Challenges Arena, we've started to become profitable, over this next few quarters, our profitability from Challenges Arena is set to increase, because, like I said, the base is getting bigger, and we will continue to get more and more profitable as we go along. You can notice that our gross margins have started to get better and better. So, we were in the 40s, we are up in high 50s, hopefully by the end of next year, we'll be in the 60s. So, that's where the growth is happening. As we change from the perspective of mix, clearly, we will see also bottom line getting impacted positively as we go along.

Prakash R. Prakash R: Just following on that question to let's say we look three years ahead to FY'26, at that time the marketing spend should have gone down to at least a point where you get a 30% EBITDA on both ONMO and CA, and whatever the EBITDA of the legacy business, the blended EBITDA should be over 20%, somewhere there. I'm not asking for an actual number. I'm just asking for direction.

Sanjay Baweja: Your mathematics is correct.

Moderator: Our next question is from Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: You're mentioning about your investment in Chingari. Wanted to understand how much have you invested so far, and what is the stake that you have, and what was the last round valuation of Chingari?

Sanjay Baweja: So, we hold about 10% equity in Chingari. From a valuation perspective, in the last round, although they've not made public, I think it was around $80 million, somewhere around there. Currently, obviously, they're looking at much bigger numbers and I don't want to put a number to that. But they are expecting to raise money over the next six to 12 to 18 to 24 months. So, hopefully we will be a part of that plan. Like I mentioned earlier to another question, we will definitely look to get liquidity from them.

Mithun Aswath: How much have you invested for that 10%?

Sanjay Baweja: We invested in two rounds. I think the first round was probably at half the valuation, second round was double, and many other people also invested,

Asheesh Chatterjee: I think we have invested close to around INR 40 to INR 41 crores for our 10%. And as Sanjay mentioned that this was in two rounds, one at a different valuation, the other at double.

Moderator: Our next question is from the line of Saikiran Pulavarthi from Pulavarthi Advisors. Please go ahead.

Saikiran Pulavarthi: Three questions from my side. The first question is, at this point of time, that legacy business was trending at 10% to 11% of EBITDA margin, which we were reporting before the gaming scale up. And the second question is to one of the earlier questions, you mentioned that you're capitalizing the employee expenses primarily for ONMO development, and then you said that at certain point of time, you will decide to expense it in the P&L. So just want to understand if that's the case, considering this plus potentially marketing expenses, the scale which ONMO has to have to be EBITDA-positive should be substantially higher, is my understanding right? And the third question is that sir, you mentioned that the marketing expenses, 50% is gaming and 50% is for first one, but if I look at the historical numbers, in Q1 FY'21, the marketing costs were somewhere around INR 5 crores, and currently it's around INR 20 crores. Just trying to understand, sir, do you mean that the legacy marketing expenses of almost like doubled since Q1 FY'21?

Sanjay Baweja: So, from a legacy margin perspective, you're right, we were at 12% to 13%. But like you rightly mentioned, there has been a focus on growth and initially, we had people working towards Challenges Arena and now ONMO cost is getting capitalized, but we did not capitalize any of the people's cost or anything related to Challenges Arena. So, clearly, Challenges Arena costs got absorbed in the P&L, and therefore, you see some amount of reduction from a profitability perspective, and also the marketing aspects. So, clearly, that's something that we have. And now, we are focused on making that more profitable, I think we will continue to get the legacy percentages back once we segregate and show that and Challenges Arena will of course be much more profitable as we've been talking about that. In terms of capitalization, like we said, ONMO part is getting capitalized. And yes, revenue will be much higher, ONMO will need to generate a lot more revenue to be profitable, and we will expect that to happen towards the end of next year.

Asheesh Chatterjee: On your third part of the question on marketing cost, our legacy marketing has remained flat. So largely, the entire growth that you see versus previous years is only largely Challenges Arena and ONMO. There was no ONMO last year. It was a very small amount of Challenges Arena in the last year. So, the entire growth that you see is on the back of new products.

Saikiran Pulavarthi: For last year, the total marketing cost is around INR 40.7 crores and currently it's around INR 54 crores. You mean to say that FY'22 INR 41 crores doesn't have meaningful, anything related to CA?

Asheesh Chatterjee: If you look at the nine months number, it's INR 28.4 crores last year, and that's gone to INR 54.3 crores.

Saikiran Pulavarthi: So, you mean to say that FY'22 doesn't have meaningful anything regarding the CA, is it?

Asheesh Chatterjee: It has very small amount of CA, it has no ONMO.

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

Mithun Aswath: This question is more to FC. I just wanted to understand, we've over the years had several avatars and initiatives, it was music and then tones, and then now we're going into gaming. These have been experiments that we've done. How do we feel on this journey that we are taking? I just want to understand whether you think it is in the right direction, because we had these plans for direct-to-consumer, which have been shelved down. So just want to understand what his thoughts are in terms of how the company is positioned and how it will look like maybe a couple of years from now?

Francois-Charles Sirois: Yes, a good point. When you talk about music, we talk about the music app that we wanted to launch on top of tones, right, that was in 2016. And if you remember right, to do that we were actually buying the tones business from the operators in India. We'd actually verbal deals with all the operators to transfer their business. So right away the actual subscribers would have been our subscribers. So, the fall of that model happened after the demonetization that happened in November 2016, and the actual Jio launch in 2017, that actually did a mess in the telecom industry, and that's where they actually went really rough on us on tones, which actually killed that model, In 2018, we actually decided to go into gaming. That's where we did the first acquisition of Appland. And the key was really to push gaming towards operators, but we knew we needed to get into cloud gaming. We analyzed all the solutions in 2019, and that's where we decided to develop our own. To be honest with the type of investments, and we actually reviewed with this the board yesterday, but the type of investment we did to build our own cloud gaming infrastructure and pure play mobile gaming service, were the only pure play mobile gaming service towards mobile operators. And I repeat it, the only way to do a pure play 5G mobile service, cloud gaming is to deploy servers within an operator, nobody else really does that for mobile users. But the actual investment to do this, it is a big cost as you can see, cash wise that is massive, in relative terms to other competitors that I've invested in cloud gaming, it's really, a smaller amount. So, that investment was done in end of 2019, where we really decided into that. We did the Rob0 deal in the course of 2020, and we developed the platform. The D2C incentive, just to be clear, I truly believe ONMO is a D2C first approach where the engagement, the service, has to be a D2C service. But the beauty of our plan now is to really focus on deploying that D2C service across operator for the subscription revenues. As you can see, we launched an operator. Yes, we invest in marketing, but we get subscription revenues. The funnel is direct. As soon as we put the marketing dollars, we know how much revenues we're making which is very different for D2C. As we know, we invest in marketing in D2C and you don't know, you get free subscribers by design they're engaged, and they decide to play the funnel is very long and painful, and more costly. So that's why the whole approach Nir has with the team is really to build a D2C first product. Although we did launched to see first in India, as you can see, but we did the metrics, and it makes more sense to do this to really focus on operators. Keep in mind, that every deployment we'll be doing soon will be linking to the same D2C side. So, it will be a central D2C side, linked to all the operators that we're adding on this, using the same servers for the D2C service and the B2B service. So, for now, we're not putting any money in D2C, that's why Chingari, we're not really using the traffic, I mean, it still goes on our site, does still play, but we don't monetize it, we didn't monetize that part. We're really focusing on delivering the operators maximizing the revenues. And what I like is that we see the traction with Challenges Arena, and we're following the exact same traction. So, we have like two service in a row getting launched. Does this answer your question?

Mithun Aswath: I'm completely with you what you've done and, obviously, things change. I just wanted to know, where do you see the company two years from now? I think you've had a huge ambition to make this a gaming sort of company, and that's why it was driven there. Now, it seems that you've become more conservative, and you want to keep profitability, and that's the focus. So, I just want to understand from you as the promoter, what do you want OnMobile to become, that's what I was trying to look at?

Francois-Charles Sirois: First of all, just on the financial business, I like profitability. So, just to be clear with all investors, when we invest dollars, we put it in the right place. So, my view is, in the next years to have a profitable company, having very attractive, gaming services, and today we have a suite of service. Gaming was a very small part of our revenues. Now, it's really growing; we're getting almost 15% and might use to have a real grown company altogether, including the legacy, that makes money. And, right now, we're in a tough phase where we've done the investment, we're putting the marketing dollars, and there's more onboarding to be done, as I was mentioning with operators. So right now, financially, it looks tough. But, every time we activate an operator we know we will make money. And that's the key here.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

Francois-Charles Sirois: Thank you, all. So, a big quarter. All your questions exactly were in the budget phase exactly right now to what's the plan for the year '23-24, so we're right into it. Next call will be on end of May. So, I look forward to sharing the developments with all of you by then.

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