



# Third Quarter FY2017 Earnings Conference Call 10 February 2016

## Speakers:

Mr. Rajiv Pancholy, Managing Director & CEO, OnMobile  
Mr. Sanjay Bhambri, Chief Commercial Officer, OnMobile  
Mr. Praveen Kumar, Chief Financial Officer, OnMobile



**Moderator:**

Good morning, everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to Q3 FY2017 Investor's Conference Call for OnMobile Global Limited. For the duration of the presentation, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by the Q&A session. Joining us today on the call are Mr. Rajiv Pancholy, Managing Director and CEO, Mr. Sanjay Bhambri, Chief Commercial Officer and Mr. Praveen Kumar, Chief Financial Officer. So before we begin, 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. 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. Please be advised that this conference is being recorded today. So I would like to now hand over the proceedings to Mr. Rajiv Pancholy. Thank you and over to you, sir.

**Rajiv Pancholy:**

Thank you, Harpreet, and good morning, ladies and gentlemen. My name is Rajiv Pancholy and with me today on the call are my colleagues Sanjay Bhambri and Praveen Kumar. Before we get to discussing OnMobile's performance in Q3, I would like to provide the context in which the results have been achieved. Since November of 2016, we have witnessed the highest amount of volatility in international markets partly driven by what maybe sort of summarized as geopolitical developers. Coupled with the impacts of demonetization, we have also witnessed the most dramatic changes in the Indian telecom industry a trend that is continuing, as we speak. Our challenge, therefore, has been to be with these practical issues while executing on a longer-term plan and remediating or retaining our focus on that.

Before Praveen walks us through the details of our financial results, I would like to talk about some of the highlights of the past few months. First and foremost, as explained in our last investor call, we have seen the impact of the devaluation of the Egyptian pound on our third quarter results. This has impacted our revenues from the country and also affected us our assets and liabilities there. On a more positive note, we have renewed the contract with Vodafone in India for the further of two years essentially on the same terms as

before and similarly we have renewed our agreement with BSNL for the further period of one year. I am also pleased to announce today that we have expanded our CVAS offering which is a non-RBT business which is predominantly centred in Europe and we've gone now to a new territory which is Italy through a new agreement with Telecom Italia Mobile. We are certainly greatly pleased to add Telecom Italia Mobile to our list of customers. As I mentioned earlier, while managing our traditional business, we are forcefully pushing ahead with our new strategy. We are now getting very close to introducing our two new apps in the US and as an essential step towards this very important role, we have recently successfully replaced the old network platform in Sprint with our own latest platform something that has been under development for the last year-and-a-half. We are now in the phase of doing an integration of an app with a new life network platform for the first time. We have also, as an organization, decided that amidst this chaos we need to accelerate the pace of introducing the new products to the market. This is the trend that we would see in the quarters to come. With that, let me hand over the call to Praveen, after which we will have the opportunity to respond to your questions. Praveen?

**Praveen Kumar:**

Thank you, Rajiv. Good morning all of you and welcome to the Q3 earnings call. One change in the current quarter's presentation is that we have only reported the IndAS financials and not given the earlier gap comparison in the commentary. As we are now well into the IndAS and two quarters of reporting and comparison it's given as the fair sense of the kind of the impact we have had and going to have. So we will now continue only the IndAS financials going forward.

Coming to the reported numbers, our revenue was 180.5 crores as against 187 crores in the last quarter lower by around 3.5%. Absolute reduction is around 6.5 crores. Now, some of the key reasons for it as we have explained in the earnings presentation are first one is Vivo, we talked about the discontinuation in the earlier quarters; we had revenue till July but nothing in Q3. And the second one is the Egyptian pound devaluation that Rajiv spoke about. This didn't happen in Q3, but before we had announced the result in Q2 and so we had given an update in the last call. So the rate was 8.8 Egyptian pounds to a dollar pre-devaluation which ended at 18 pounds or 18.1 pound actually to a dollar at the end of the quarter, so that's a significant devaluation

we've had. And the third one is on account of demonetization which I suppose I don't have to explain in detail. Our India revenue declined by around 3.8% which is purely because of this during the quarter. Typically, we would expect the revenue to go up in Q3 which has got nullified partly because of this impact. On the operating expenses, we have done well. Manpower cost is lower by 4.5% over the last quarter and OpEx is lower by 12%, but there's a small element of FX gain in this; if I normalize for that, the OpEx is lower by around 5% in the sequential quarter. With that, we have an EBITDA of 25.2 crores stable at 14% margins and 11.7 crores of operating profit at 6% margin percentage. Other income includes 5.9 crores of ForEx gain mainly arising out of the USD movement. The ForEx impact of 17.9 crores that's called out separately under the exceptional item is the EGP devaluation, Rajiv just mentioned this earlier. Now, that leaves us with the PBT of 3.2 crores and a very marginal net loss of around 98 lakhs. Needless to say if we remove the exceptional loss net of FX gain, our net margin would have been in line with the last quarter, yeah, but these are the numbers.

Coming to the balance sheet and other data points, our cash balance stood at 255 crores at the end of the last quarter. We did a CapEx of around 8 crores in the quarter and our headcounts was at 1065 people at the end of the quarter. So with this, we can open the call for questions.

**Moderator:**

Thank you, sir. With this, we will begin the Q&A interactive session. Participants, if you wish to ask a question, you may please press "0" and "1" on your telephone keypad and wait for your line to be unmuted. I will repeat. To ask a question, you may please press "0" and "1". The first question of the day we have from Chinmaya Garg from Dron Capital. Your line is unmuted.

**Chinmaya Garg:**

Hello? Hi, Rajiv. This is Nashid here.

**Rajiv Pancholy:**

Yes. How are you?

**Chinmaya Garg:**

Absolutely fine. How are you? Just one, you mentioned that you are going to be aggressive on the, you know, the new product launch side, so in terms of client traction can you give some kind of, you know, just a feel around as to how it has been in terms of discussion,

in terms of the way people are perceiving this or accepting this?

**Rajiv Pancholy:**

Without taking names all I can do is tell you that there has been significant progress in negotiations with potential customers with this model and we are very confident that this will get enshrined in contracts very, very soon and that's all I can add. So far the reception has been very good and, in fact, I just can give you a bit of anecdotal example, you know, we have a new thing with one of the operators. I wouldn't name them for obvious reasons, but when we were discussing basically the company's value proposition, we, instead of making a formal presentation, we actually simply handed over the app to this gentleman and we asked him to basically just play with it and I just want to let you know that within minutes a decision was made in favour of deploying this product. So that gives you some insight in terms of what we think about our product and more importantly what our potential customers think about the product.

**Chinmaya Garg:**

Okay. And on the CVAS front, the breakthrough has come after some time in terms of Italy, so is there any colour because CVAS obviously having there is this one when you start, this is what? typically it starts with couple of Indian dollars how does this contract start?

**Rajiv Pancholy:**

So keep in mind that Italy is not a very big market and, you know, CVAS it always starts slowly. So having signed the deal, I think, we would see basically some fairly modest returns in the first few quarters and then I think it will start to pick up pace. So I would say that in the very short term you probably will not see a very appreciable impact on the revenue line, but that is something we witnessed in every new introduction it takes several quarters after the introduction for it to really pick up and the customer base to come start using it.

**Chinmaya Garg:**

Okay. But CVAS separately are you seeing traction in terms of, let's say, because typically it takes time to convert and it's been some time, so do you see any potential customers coming up in that segment?

**Rajiv Pancholy:**

So in CVAS we actually are pursuing a very different strategy than we did with the ringback tones in the sense that CVAS is something that we are trying to do on a very targeted basis, very selected basis. And if you look at the history of the CVAS product, it is very Euro-

centric. Historically, we are very big in Spain and outside of Europe it's been very little in terms of traction for cultural reasons and other reasons. So our thrust has been basically to manage CVAS, it has given us good growth in the last few years; we are very happy with that. But going ahead, we want to be careful not to take this product to geographies where this would not be as much of a success. So it is a European product primarily with few geographies outside of that and I think we are going this time keep a safe focus in that territory.

**Chinmaya Garg:**

Okay. And as of today the main business, how do you see that panning out while our new product launch is happening?

**Rajiv Pancholy:**

So the traditional business, you know, will be impacted by changes in the marketplace; we had just talked about the impact of demonetization on the recharge that takes place on the prepaid, you know, customer base in India and that's phenomenal. And once that happens in the industry, it obviously, you know, we as an OnMobile are not untouched by these things. So that will continue to be what it's going to be. Our choice basically is, we have to remain focused, you know, we look at basically the ways in which we could move forward and one of our options, of course, is to sit back a little bit, take a look at basically which way the market is growing and then basically make our move. The problem or the flaw with that approach which we have now discarded is that, you know, that we suppose that in a few months we will now upload a whole lot more and that is not a certainty given the way the Indian telecom industry is evolving. So the only option for us is to say the existing business is what's going to be and we try and maximize it as much as we can in the context of what's happening in the market but the real opportunity for us is the plan that we discussed in the past and we have to push ahead with that one as aggressively as we can. So that is the sense of our thinking and the path that we have chosen.

**Chinmaya Garg:**

Okay. In terms of, let's say, the cash generation that still continues and I think if I understand right, maybe, post June you can potentially be due for one more buybacks, so that thought will still be there in terms of... because it has been done for last two years and there is still cash generation happening in the company and stock range which is, let's say, lower than whatever previous two buybacks?

**Rajiv Pancholy:** Yeah. You know, I would say that, you know, that is a decision for the board to make and will probably be made at the end of our fourth quarter at the next board meeting. And as always, you know, we had said in the past, you know, all the options remain on the table in terms of dividends, in terms of buybacks and I think, you know, the discussion takes place. But the underlying sentiment is a very positive but we continue to generate cash. So what proportion is dividend and what proportion of buyback or one or the other or third whatever I don't know that will be decided by the board.

**Chinmaya Garg:** Okay. Thanks and, you know, all the best.

**Rajiv Pancholy:** Thank you.

**Moderator:** Thanks for your question. Next, we have Sunil Jain from Nirmal Bang. Your line is unmuted.

**Sunil Jain:** Yeah. Good morning, sir. Sir, can you explain where is apart from India the revenue in Asia has declined by 16% where the problem has come and why?

**Rajiv Pancholy:** In Asia the biggest decline has actually come from Bangladesh and it is a result of the regulatory change that has taken place which we are very familiar with, it's called Double Confirmation that every time on a service you actually ask a subscriber to, you know, push a button twice to accept the change or to renew or to buy new content the success rate goes down. We witnessed this in India several years ago and the drop was actually fairly dramatic and every geography where this change has been implemented we've seen this major reaction of a decline before eventually this bounces back. So that is what we are witnessing and primarily in Bangladesh.

**Sunil Jain:** So whatever the decline which has come, I think, it's not fully captured in this quarter or will continue in the coming quarter, am I correct?

**Rajiv Pancholy:** The extent of the decline that we have seen, first of all, there's no way of forecasting, you know, what this reaction might be. But in the past, we have seen declines of up to 25-30% immediately after this change in the regulatory policy. And when we see after few quarters and maybe after a year, it kind of goes into a steady state and then slowly starts to recover. We saw this in India in 2013, 2014 when this change was

implemented. So is it fully implemented I don't know, I think, we've seen the decline that you've seen and let's see, we keep saying and hoping that we definitely plateau out and then start to grow back again.

**Sunil Jain:**

Sir, anything we can say about the subscriber addition or decline in this particular quarter?

**Rajiv Pancholy:**

Yes. Our subscriber base has indeed gone down; it's a very small change I would say overall, but it is primarily driven by what has happened in Bangladesh because of the double confirmation and I would say a very small decline, I would say, in the Indian market and that has more to do with the fact that post demonetization all the promotions that happened around Dusshera, Diwali and Christmas this time did not happen to the extent and, of course, the choice of the operators not to do that because of prevailing conditions triggered by demonetization. So that is the effect we are seeing from that one.

**Sunil Jain:**

So the effect of demonetization in India business is coming down or the lost opportunity is lost or we can gain something back in the coming quarters?

**Rajiv Pancholy:**

I think that remains to be seen, I mean, like we don't know I think, you know, obviously people who used to go and recharge the phone for Rs. 300, Rs. 400 immediately after demonetization, stopped doing so. So they were I think like more lot of people they were sort of living week-to-week with a limited amount of currency and cash. So that did affect and you can see that in the results of all the major operators in India you can see that the first impact and as a consequence, you know, all the people who are part of the ecosystem including OnMobile saw the impact. Now, that the essential impacts and the currency mitigations are going away let's see what happens. I think, you know, there is certainly some indications, there are going to be some bounce back but that remains to be seen.

**Sunil Jain:**

And, sir, about this new product in Sprint what we are planning to launch, when it's likely to be launched, we were earlier targeting about February?

**Rajiv Pancholy:**

Yeah. It is late March, very early April and the delay has to do more with the fact that the platform conversion which had to take place had turned out to be a little bit more complicated than we had envisaged because we used to give you some details on this. This



was an existing platform carrying the old service with live customers. And as per the customers' processes which actually will be handled in a very staged fashion to first introduce the platform, then to route the existing traffic on to the new platform and once they stabilize, then we could add more features and then finally integrate our app. So we have done the first part; that's a good news. It's all done, it's implemented and now we are starting the final stage which is the integration of the new features in the new app. So, you know, in a few weeks I think we will be in the thick of that process and then as soon as that is stable, we will go live with it in the US market.

**Sunil Jain:** And, sir, similar part is like customer's additions like we were targeting few more customers to be signed up last time, as you mentioned in the call, so things are getting delayed, any specific reason for that or people are not means customers are not taking decisions, what is happening there?

**Rajiv Pancholy:** No. I think, primarily if you look at what has happened in the last couple of months, you know, with the impact that has been felt with the new entrants in the Indian telecom market where there was a sudden shift in the priorities within the incumbent operators in terms of how do they deal with this challenge that they now face and that naturally causes a little bit of delay sometimes because they are grappling with what they described as a bigger challenge, so that's the only reason. But fundamentally the sentiment towards what we are trying to do has not changed where it is progressing.

**Sunil Jain:** So we can see some more sign up in this particular quarter, this current quarter?

**Rajiv Pancholy:** Yeah. Hopefully, with us in the news within the quarter, but if not, then very early next quarter.

**Sunil Jain:** Okay. Great, sir. Thank you very much and all the best.

**Rajiv Pancholy:** Thank you.

**Moderator:** Next question, we have from Nawil Seth from M. K. Global. Your line is unmuted.

**Nawil Seth:** Thanks for the opportunity, sir. I have one question on the timeline, so if you can, as you stated for Sprint it will be in next few months' launch will happen, so what happens to the next market which in the earlier calls you

had stated India is the second largest market which is the focus, so any progress there you want to, you know, suggest the timeline when the new products will be launched?

**Rajiv Pancholy:**

Yeah. All I can say is that we are in the thick of those discussions. We've reached a stage where this is no longer a discussion about the concept; we are in the final stages of the commercial negotiations on this thing. So as soon as that gets terminated, we will announce it and number two, in fact, our clock ticking in terms of implementation. On the implementation side, you know, India is our home base, so naturally we will be a lot more efficient in terms of rolling out the product. All our people are here, the operational team is here, so I think that will be a lot easier thing for us to do, but realize that it is a lot bigger job to do this across all the circles in India than it is to do with for one operator in the US. So on one hand bigger opportunity, on the other hand, you know, we are here and we know it intimately. So that's where we stand.

**Nawil Seth:**

And in India if you are through with a single operator which would be larger in your overall scheme of things, would you go ahead and launch or you will be waiting for, you know, more operators or, say, 3-4 operators minimum to sign the contract and probably then the rollout will happen?

**Rajiv Pancholy:**

We will launch.

**Nawil Seth:**

Okay. Thanks a lot, sir.

**Rajiv Pancholy:**

All right. Thanks.

**Moderator:**

Next question we have from Nitin from HDFC Mutual Funds. Your line is unmuted.

**Nitin:**

Yeah. Hi. Thanks. Two questions, one, if we didn't have demonetization and the Egyptian devaluation, what would that growth number have been on an aggregate basis? Two, you know, what would be the sort of milestones that we need to watch for in the Sprint rollout sort of which can give us some sense of how the product is progressing? And one more if I can add what happened to the Vivo contract in the sense that, you know, when we didn't renew the contract, did you move to another service provider or it completely rid away with the service of thing?

**Rajiv Pancholy:**

Let me first, you know, three different questions, so we will answer them differently. Praveen can take this question about the revenues and the profit and the impact, but I will answer the Vivo question first. The history of the Vivo contract is that when we initially signed the contract with Vivo many years ago, one of the dominant, I would say, the components of that agreement was an upfront fee that we provided and that was a very significant amount; it was not a trivial amount to the point where, you know, we've until fairly recently we've been carrying the impact of that turnaround depreciation amortization line. When we started to restructure the company two and a half years ago, one thing we decided to do was not to do that; it makes no sense, so then, you know, pay a hefty amount of money to win the contract, which then over the years is subject to volatility because it forex and things like this... It is a wrong model and that was a conscious decision. So when the renewal talks with Vivo started to happen, I think there were perhaps some expectation that we would go back and commit tens of millions of dollars of upfront fee which we politely informed the customer that we were not able to do anymore, we are not willing to do anymore. So that was I think one of the essential reasons for what actually happened in the future because when the discussion turned to all kinds of other terms of the contract and we also feel that, you know, sometimes it's better not to enter the deal in which you will not be making a healthy profit and this is not one of the situations that without the upfront fee the sentiment was that we would come back with very aggressive commercial terms especially in terms of revenue share which we were not willing to entertain. So it was the conscious decision and that's where we stand, so that's the part about Vivo.

Your other question was about milestones about Sprint, I would basically give you two milestones, one is the actual commercial launch with which will go live and this app is available to users and subscribers of Sprint in the US that is, of course, a day that we are all waiting for. And the second milestone is perhaps 90 days after that because after 90 days we would be testing out a lot the commercial hypotheses in terms of the stake rates and the churn rates and the success of our campaigns and based on that we will then decide at what rate we will continue to push for customer acquisition. So these are the two important dates for us and I think the two important dates from an investor point of view to watch. In terms of revenues, Praveen, over to you.

- Praveen Kumar:** Yeah. Nitin on the financial if we did not have the demonetization and the Egyptian pound impact, the revenues would have probably remained the same as last quarter, we would not have had the degrowth and a large part of that would have flown into our EBITDA, it would be in the range of, say, 30 crores instead of 25 that would be in 15-17% growth over Q2. The larger hit has come in the exceptional line item which is below the operating profit, so the impact on net margin is much higher, so we would have had probably around 15-17 crores higher net margin without these two impacts.
- Nitin:** Sure. If I can follow up with just one more on Sprint, so we have not given out actual commercial launch timeline even on a sort of rough basis?
- Rajiv Pancholy:** No. I did mention that; that's at the end of March, maybe, early in April, just around that time we will be doing live commercially.
- Nitin:** Okay. That is commercial? Okay. Once the platform conversion is done, there is nothing else between platform conversion and commercial launch that will sort of?
- Rajiv Pancholy:** No. I would say it's a fairly routine process in these kind of deployments where, you know, you can test only one in the lab, but once you have a live platform and first time you attach an app to it, there are always some issues that come up, they call it integration testing. So that's the phase that we will go through, but, you know, we have been working on these products, you know, for a long time, so I think the confidence is very high that whatever small things that come up, we will basically address them and that remains the objective and goal in terms of launching live.
- Nitin:** Great. Wish you all the best for the launch. Thank you.
- Rajiv Pancholy:** Thank you.
- Moderator:** Before taking next question I will announce it again. To ask a question, you may please press "0" and "1". Next we have Kamal, individual investor. Your line is unmuted.
- Kamal:** Good morning Rajiv and team and Praveen thank you for sharing these two factors of demonetization and the

impact of the Egyptian pound really appreciate that insight. My question relates to the acquisition in Canada for the new platform, could you please throw some light on this, the singular contract?

**Rajiv Pancholy:** I am sorry, I think, we have not made any announcement in Canada.

**Kamal:** No. But I believe that, you know, this is something that OnMobile is pursuing actively, right, do we see something on that front this quarter?

**Rajiv Pancholy:** No. I think perhaps it's a wrong information. We are not pursuing any acquisition, any such things in Canada.

**Kamal:** Okay. Fair enough. Thank you.

**Rajiv Pancholy:** Yeah.

**Moderator:** Once again, participants. To ask a question, you may please press "0" and "1". We have a question from Mr. Sunil Jain from Nirmal Bang. Your line is unmuted.

**Sunil Jain:** Yeah. Thank you very much for giving me the opportunity again. Sir, we got cost dues both on employee and the other operating cost, how that was possible generally but we had seen in business is changing or you are adding up new businesses this cost moves up and on the contrary things are coming down, so how it was possible?

**Rajiv Pancholy:** The mix of skills is changing within OnMobile, so it is not that we're just blindly adding new competencies; we are also trying to balance that within the requirements of the old platform and the old competencies that we have. So that's why you are seeing basically a very tight management of our cost lines both in terms of OpEx and also in terms of manpower cost. One of the trends that we are seeing here is that overall within the company in the last one-year attrition rate is down also. So what actually happens is, you know, the cost of replacing employees is higher, then you have higher attrition, so that is one of the factors that for the same amount of headcount with lower attrition will actually end up in lower manpower cost.

**Sunil Jain:** It's more of like there is no one-off or it's physical which is the cost which has come down and you sustained at least?

**Praveen Kumar:** Yeah. There is no one-off; there is a sustainable decrease that has happened.

**Sunil Jain:** So is there any more scope for this to reduce?

**Rajiv Pancholy:** No. I would say that not by a whole amount, I mean, you know, a little bit fluctuation will be there, as we continue to sort of and it's more a question of timing that when we are adding more new competencies and trading off the competencies that you don't really need, you can see a little bit of up and down depending on the timing of what comes first. But I would say there's no dramatic up or down kind of movement that you can anticipate in the near future.

**Sunil Jain:** Okay, sir. Great. Thank you.

**Moderator:** Next question we have from Aditya, private investor. Your line is unmuted.

**Aditya:** Hi. Hello, everyone. I thought that you are changing the auditors, so is there a specific reason and I think you had the Deloitte and you are changing that. The second question is related to your Livewire purchase 2-3 years back, so how that's helping you paid around 100 crores for that, right, to acquire that company, so how is that helping you versus the ROI on that investment unit?

**Praveen Kumar:** Yeah. First on the change of auditors it is more regulatory because the new company law says that we can't have auditors beyond a certain period, so we are forced to move out to new auditors for a period of 5 years. On the Livewire acquisition it's been well integrated into our existing business and it's really difficult to calculate the margins and the ROIs on a separate basis. You know, I will tell you why there were two businesses when we acquired Livewire, essentially one was the ringback tones portion in the US and there was a platform for music and CVAS in other markets, so we have integrated that platform into our existing CVAS business, so it's very difficult to differentiate and state it. And in any case, I think, that's one of the reasons there was no goodwill there and most of the assets that we acquired were of intangible nature which is getting depreciated on a quarter-on-quarter basis. I think, one-and-a-half or two years from now that will also go down to zero and completing whatever I think the integration both on the operational side as well as on the financial side.

**Aditya:** So followup question is you are the second largest company, so why do you invest 100 crores and you buy your people, right, so how does that help you, why don't you bring business tools and I don't see any growth in top lines for the last 3 years, right, so how does it make sense of that 100 crores investment you've made?

**Praveen Kumar:** First, sorry, Aditya I don't think we understood your question.

**Aditya:** Sir, I am just trying to understand your rationale for 100 crores investment, right, so when you invest in a company, you do it for growth and you have an inbuilt team, right, so if you are not getting new customers, you are not getting new product lines, so why do you invest in a product and you buy out something for such a big an amount like almost one-eighth of your revenue and it does not give you any bottom line or top line growth given even after 3 years?

**Rajiv Pancholy:** Yeah. I think it's incorrect to say it has not made a contribution to OnMobile; the contribution has been slightly different. If you look at basically the entire CVAS business, this is all built upon and then CVAS now today has a very significant percentage of OnMobile's revenue stream. This is all built on a platform that was acquired through Live, the acquisition in the US. So in terms of what has it done for OnMobile where you can see basically what the breakout is and it is not revealed. The second thing it gave us was it gave us a foothold in the US which is something we are trying to build upon now we just spent a lot of time speaking about Sprint, the Sprint relationship was acquired by OnMobile through this Livewire acquisition, right, so you have to keep that in mind. Now, we don't break it out separately because it's a multifaceted, you know, payback for the company. It's difficult to capture all this in a clean mathematical formula, but I would say to you that I think it's turning out a very valuable acquisition for us for these two reasons.

**Aditya:** Okay. Thank you.

**Praveen Kumar:** Harpreet, we will take one last question.

**Moderator:** Sure, sir. Next, we have Mallika Arjun, an independent investor. Your line is unmuted.

- Mallika Arjun:** Hello. I mean, just a bit novice to your accounting I am trying to understand the 17 crores or 16 crores of exceptional item which you have in your profit and loss statement is it something which is more a non-cash item like an amortization of an asset because the devaluation of currency?
- Praveen Kumar:** No. This will not be non-cash. I will tell you how this is essentially arrived at is we have an Egyptian business, there are operating assets and liabilities including cash. Now, after devaluation that gets restated at a much lesser rate, right, so that's the impact. So it is wrong to call it non-cash because the cash balance it was there is worth much less now. So it is indeed a cash loss, if I may call it that way.
- Mallika Arjun:** So you are devaluating the asset, right, and that's what has been amortized in the exceptional items?
- Praveen Kumar:** Yes.
- Mallika Arjun:** So when you devalue an asset, so basically when, if I want to understand the cash flow statement, as you add back your depreciation to PBT, you would also add back this because it's a non-cash thing, would it be, so in that scenario you would have at least, if I just break it up, cash flows?
- Praveen Kumar:** No. One second. No. So you can't add this back because this is not a depreciation line item. This is an asset that is worth much less today, right, so we don't call it an amortization. It is a loss.
- Mallika Arjun:** But there is no cash outflow?
- Praveen Kumar:** There is a cash outflow; it is not in the form of a cash outflow while OnMobile giving out cash, but it is a cash which is worth much less as opposed to when it was, you know, pre-devaluation period. So what was, you know, something was worth 1 crore now it's worth only 50 lakhs, you know, so the 50 lakhs are taken as an exceptional item.
- Mallika Arjun:** Right. So as such, if I see the Q3 of 2017, OnMobile has not actually there is no cash outflow, so basically when I look at my cash flow statement, I would think even if this exceptional item happens or not I would have a 20-25 crores of cash flows for this quarter approximately, if I am not wrong. And I am just wondering why is the cash and cash equivalent just



increased by 3 crores when you have a 20 to 30 crores of cash inflow this quarter just want a breakup of that how we have expended the cash of 30 crores.

**Praveen Kumar:** So that's where you have to understand the fundamentals of the cash flow and the devaluation. Devaluation of cash means the cash has come down, while there is no cash flow, we have generated cash flows that is not there, okay? So it is, in fact, a reduction in cash. The second thing also, the data point that I gave out that we spent on CapEx of around 8 crores this quarter, so that will also reduce the cash. So these are the two elements which are there.

**Mallika Arjun:** So when you do a CapEx, what would your average CapEx be a year just to understand because my thought is similar to the depreciation, I believe?

**Praveen Kumar:** So at current rate our CapEx would be in the range of 15 crores roughly per annum. It will not be equal across all the quarters; it depends on when the deployment happens and things like that.

**Mallika Arjun:** Yeah. That's great. Thank you so much.

**Praveen Kumar:** Okay. Thank you.

**Moderator:** Sir, would you like to conclude now?

**Rajiv Pancholy:** Yes. Ladies and gentlemen, thank you very much. Well, as I mentioned earlier, we are charging ahead with the strategy we've articulated and we will certainly keep announcing and sharing with you all the major milestones that we achieved in this new journey. So I wish you a very pleasant day and once again thank you.

**Moderator:** Thank you, speakers. Thank you, participants. That does conclude our Q3 FY17 Investor's Conference Call. I would request you all you may all disconnect the lines now. Thank you all for joining in. Have a great day ahead.