"OnMobile Global Limited Q1FY25 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 Q1 FY'25 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 Investor Relations. Thank you and over to you, sir.

Pratik Jagtap: Thank you, Dipika. Good evening and welcome to the Q1 FY'25 Earnings Call of OnMobile Global Limited. Representing the management today, we have FC, Executive Chairman and CEO; Radhika Venugopal, Global CFO; Bikram Sherawat, President and COO. The call will start with a brief update about the overall performance during the quarter and business activity by FC then Bikram will address the investors, Radhika will update on financials and then we will 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 floor to Mr. FC, over to you, sir.

Francois-Charles Sirois: Thank you all for joining this call. Good quarter on the gaming side. As you saw the results 22.9% growth on the revenues of gaming. To be honest it was exactly what was planned. I'm happy the team delivered exactly what we had projected in terms of growth. We're right on the numbers finishing the quarter with 7.6 million subscribers a nice growth there also. We view this growth going on during the next quarters coming. As we have about 111 now live deployments from 101 last quarter. So, we added 10 deployments this quarter. As we mentioned last quarter, what's really important is the number of optimized account marketing wise so we can actually do the marketing. Last quarter we had around 35 optimized accounts. Now we're up to 46 optimized accounts on marketing and when I say optimized it's not that we're at full capacity it's that at least all the parameters are there to invest the marketing accordingly with scale. Obviously, the goal is to optimize most of the accounts that we have all the deployments. As we grow, it's still our objective by the end of 2025 to aim towards as I said 200 accounts. There will not be 200 optimized accounts, but as we go there, we're really optimizing. Especially adding a lot of tools on the team and all what necessary to really be able to manage so many geographies and to so many accounts. Good performance from the team on that side.

Also, I want to mention that we did optimize the gaming teams, we brought them together. We brought the platform together also. So, a good synergy on that side which brought as you can see some cost saving this quarter and then we'll see more cost savings in the coming quarter both on HR and Opex. The gaming unit altogether really is on a good track to us promise this year be profitable. Radhika will talk about profitability and capitalization also that impacted this quarter.

But in all the reduction of costs to the profitability of gaming was increased from last quarter to this quarter and you will see this increase coming along in the next few quarters.

Mobile entertainment which includes Tones and Videos was stable. Many negotiations right now in RFPs on the table. So this revenue should grow as I said in the past there's no reason it doesn't grow. There's no reason it degrows. It's our job to make sure that we can grow this. We have new RBT deployments coming along also as announced before and there's many strategic discussions right now also. So mobile entertainment unit should perform in the coming quarters.

Now lastly before I go, I'm going to pass the mic to Bikram our new President and COO, I'm really happy Bikram accepted to join back. I say join back because Bikram was actually employee number 18 back in the early days of OnMobile. He is the one that really showed the growth that brought us public back in 2008. He's been a long-time employee, had left for 3.5 years or a bit more went to work for a key tech company in India. I think it's great that he got this experience also, has a lot of knowledge and lots of connections in the CXO levels with operator, has a mandate to drive sales. And I think it's essential to have somebody full time in the office with a position like this full time in Bangalore and he's based out of Bangalore and be full time. So, if he is not in Bangalore he's going to meeting customer, but when he's back home he will be in the office. It's great.

To this, I'll let the Bikram explain this first month on board with us and what he sees from the business. Bikram.

Bikram Sherawat: Thank you, FC. Good evening, everybody. Like FC mentioned, I've just joined back OnMobile and it's been great meeting all colleagues. From my perspective some key updates continuing on what FC mentioned specifically on the Tones line of business. We believe that we will be in a position to maintain and grow this business. There are a few key areas where we want to focus on this line of business going forward. Number one is service pricing. What we have seen, especially in the emerging markets, you take India, for example, customer ARPUs are being repriced. And what we've seen is the operator ARPUs are increasing. We have already started having some discussions with key partners on repricing the service. You had some initial impact already coming in one of the key markets in South Asia for this where you are seeing the impact on the revenue. In addition to the service pricing, we are also in discussion with operators to start bundling the service with various chambers for this. So that's something which we will be continuing with our operator partners. In addition to this, there is another strategic area for this, which we want to focus on is on channel. Channels number one for acquisitions and channels in the way we charge and build the customers. So, for acquisitions, we are looking at self-care integration for the service. That's something which we have worked with one large Telco already.

But what we are seeing is the kind of engagement the service is able to drive. We want to focus on providing our SDK to the operators. There are a couple of channels for charging, which we have not explored so far in Africa, for example, mobile money as a service. So in some markets, the regulators have started opening mobile wallets for services like Tones that's something which we want to explore in the coming quarters.

The third major aspect for this line of business is we want to relook at renegotiating some of our customer contracts with our key customers. Some of them are organically coming up for renewals. And what we believe is there is a potential for us to renegotiate the terms upwards in line with the customer ARPUs which the Telcos are making. So, with all of this, we believe that we should maintain and grow this line of business. I will hand over to Radhika, who will tell us about financials performance.

Radhika Venugopal: Thank you, Bikram. A warm welcome, and thank you, everyone, for joining this call. I will share the key highlights of our financial performance for the quarter ended June 30, 2024. Before moving to financial highlights, I would like to welcome our new COO, Bikram Sherawat to OnMobile. We are thrilled to have you join our team and are excited about the expertise and the vision which you bring. Looking forward to achieving great milestones together.

Now coming back to financial highlights. In terms of Q1 FY'25 performance, we reported revenue of INR 126 crores, which remained flat compared to last quarter. Gaming revenues increased by 22.9% and the gaming active subscriber base increased by 13.6%. Gross profit stood at INR 63 crores, which is 51.1%, and it is down marginally by 1.9%. On the cost front, we saw a reduction in opex around 15.9%, as compared to the previous quarter. Manpower is 9.5% down if we exclude the capitalization on a normalized basis. EBITDA for the quarter stood at INR 9 million which is down sequentially on a Y-o-Y basis, but current quarter EBITDA includes a charge-off to the P&L, amounting to INR 5.6 crores, which was earlier being capitalized. Considering this INR 5.6 crores over the last quarter, there is an improvement in profitability. We reported a net loss of INR 15.3 crores in the overall P&L at PAT level. And this is after the charge-off of the capitalized the Opex which was capitalized in the earlier quarter amounting to INR5.6 crores. And also additional depreciation on account of ONMO capex which is in our balance sheet. So, there is a total of around INR 10.9 crores on this account, and despite that our EBITDA remains positive. Overall DSO is at 91 days as compared to 94 days in quarter 4. This is the best in the last 12 quarters.

During the quarter, we also incurred some R&D and product development costs amounting to INR 3.8 crores, which in the current quarter, which we continue to capitalize, and this is for our development into Gaming space. Our cash balance increased to INR 68.8 crores versus INR 63.7 crores in quarter 4. We anticipate further performance improvements throughout the remainder of FY'25. And as FC mentioned, with reduction in cost and all the improvement in revenues, we expect the Gaming P&L to be profitable by the end of this year. And we are seeing a lot of action in that direction, both in terms of revenue as well as curtailment of cost.

With this, I now will open the floor for Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhanish Jain from Assie Capital. Please go ahead.

Dhanish Jain: Sir, I have two basic questions. Sir, my first question, can you provide the next year guidance in terms of the revenue growth? And second, can you provide the next 2-year guidance on the EBITDA growth in terms of the percentage growth? Sir that will be very helpful.

Francois-Charles Sirois: Growth on revenues, as you can see this quarter, the Gaming is growing by 22.9%, subscribers base is growing by 13%. We're putting a lot of efforts on marketing to optimize way more accounts. I see this trend continuing for the rest of the year. I mean that's our target. Obviously, we'll have an impact because, as I said in the past, once Gaming becomes profitable and that the Mobile Entertainment business grows, you have two positives instead of one negative and then one positive.

So, I mean, profitability-wise, it will have a big difference between this quarter and Q4, let's put it this way. Radhika, you want to add something?

Radhika Venugopal: Yes. So, as I mentioned, Gaming is set to turn profitable by the end of this year. If you see last quarter, we spent around INR 15 crores in Gaming, which has come down to INR 9 crores this quarter, which will further come down and we are optimizing the cost while signing up for large deals, that is what we are planning for the rest of the year in the Gaming space.

Apart from that we also foresee as Bikram mentioned, renegotiations in Tones and adding more customers wherein we expect Tones revenues which are highly profitable in the current quarter and also in the past, the legacy revenues, which are highly profitable. So with these renegotiations and additions in our deals, we expect the overall company profitability also to improve.

Bikram Sherawat: Yes like Radhika mentioned on Tones specifically we are focused very specifically in engaging with our key customers, top customers, either to improve the service pricing and also look at renegotiating the contracts whichever are coming up for renewals and expect a higher share. So that's what we are expecting and the target is for this financial year.

Dhanish Jain: Okay. So by end of FY'25, can we expect at least 10% to 12% EBITDA margin mainly on the Gaming platform business?

Radhika Venugopal: As given in the investor deck, steady state contribution margin for Gaming would be around 25% plus. This will be the target by FY26 currently, we are expecting this to turn positive by the end of this year, though we would not be able to give you an exact margin percentage or an EBITDA percentage now.

Moderator: Thank you very much. The next question is from the line of Prakash Ramaseshan from Pragya Consulting FZE. Please go ahead.

Prakash Ramaseshan: Thank you for taking my question. This question is to FC and Bikram. We are right now at about 50 accounts optimized, and we are going towards the 200 number. EBITDAs are looking to stabilize at 25% at steady state, 35% plus for the Gaming business. Do we see in the year '24, '25 that we will get to 25% EBITDA on 100 accounts optimized some number like that?

Francois-Charles Sirois: You mean this financial year?

Prakash Ramaseshan: No, '24, '25, we are basically going to creep towards normalcy. Let's say, we look at next year '25, '26. Do we see a steady state EBITDA of 25%, 30%? And then optimized accounts of about 100?

Francois-Charles Sirois: Yes, that's exactly the plan. Now when you combine this to the Mobile Entertainment business, which obviously has less EBITDA margin, but in the blended rate, yes, you'll have 2 positive as

I'm explaining. So, you should have in 2026, as we discussed, a 25% contribution margin on Gaming. And Mobile Entertainment should yield between 14% and 18%, right?

So that's exactly the goal with at least 100 accounts. I mean we signed 150 contracts so far. We're deployed in 111. By the end 2025, we'll be signed 200 agreements, we will deploy that same 150 and optimize about 100. I mean that's pretty much what's going to happen. So obviously, if you take these numbers and you just make a simple math, with the current run rate, it will bring important profitability.

Prakash Ramaseshan: And our key deliverable on optimizing accounts, basically, it's the ability to exploit these relationships strategically. That's the change that you're making?

Francois-Charles Sirois: No. The problem we have let's say, in a specific country, we need to tune the Google ad and all the parameters for marketing acquisitions so that the marketing action works, right, in line with the parameters that we have with the operator in the billing system. And the way we actually do the acquisition flow and acceptance flow with the customer.

Sometimes if you have one thing in the chain that doesn't work, your cost of acquisition can go up to 10x the normal amount. So, the more marketing that you put, you're just wasting money. So that's why in some cases, we saw our cost of marketing really going high because we tried to accelerate marketing and the actual flow and marketing parameters were not done properly.

So in some cases, it could take 3 to 6 months. Some other cases, it can be longer, 6 to 9 months to optimize an account. But once it's optimized, then we can draw to a specific size of cohort, right, and you get, let's say, 100,000 users acquisition flow that you have. Now to go from 100,000 users to be able to go to 500,000 or even 250,000 users, then it's not all the same parameters. It's not just about the money, it's about optimizing every single variable.

A lot of companies in digital marketing have a way bigger team than we have. What we're trying to do is actually put all the tools in place and the AI in place so that we have way stronger metrics coming out, so that we can optimize this, imagine doing this in 100 geographies differently. It's very tough to hire people and have them do this job, right? So, with all the events and AI, I really believe we can get AI to support us and be the equivalent of a team of 100 people instead of hiring so many people. So that's what needs to be done right now.

Prakash Ramaseshan: Fair enough. Thank you.

Moderator: Thank you very much. The next question is from Bhavesh Patel from Patel Investments. Please go ahead.

Bhavesh Patel: Thanks for the opportunity and in fact I'm liking the way you are strengthening the leadership, excited about the future. Do want to know however from your perspective is the revenue impact flat because of we losing Vodafone account last year? And that's not coming up Y-o-Y. And the second question is again more strategic. I mean, by when would you have kind of a vision for next 3 to 5 years getting into much better than just being overall profitable?

Francois-Charles Sirois: Yes. First thing yes, we did lose Vodafone we discussed about it. Obviously, all the numbers would look great if we would have kept this account. And I'm not excluding the fact that we can do more with this customer in the coming year, but for now yes it did impact our numbers. Now we add a marketing budget also an acquisition that we shifted on many other accounts. Difference was that this marketing budget was all optimized, now we have to re-optimize it. But to be honest, the quarter is somewhat flat with a great growth on Gaming because some accounts in Tones and Videos the accounts are big and you get a small hiccup, it makes a big difference. So all the growth that we have on gaming is absorbed by a small hiccup somewhere into an agreement.

When I say hiccup is, we didn't lose a contract, it's a billing issue or it's a specific issue in the country, and then it has an impact on the results. Now those can go the other way also, right? There's a lot of upside in the Mobile Entertainment business, and there's a lot of things that can be done to actually increase the revenues and compensate for any hiccups coming along in the future.

So the last year, as you know, we really put the focus on gaming. And I think by doing this, it really had an impact on our traditional business. Now we have to do both. We have to grow the business while we still put an emphasis on our traditional business which is material and can really generate profitability. So that's what explained this quarter, And that's why, I mean, there's a very slight growth, but it should have been bigger considering the growth on gaming.

Now for the future on the 3-year plan or 5-year plan, I totally agree. The plan is way larger than just what we're discussing here. I want to be careful on the sharing vision and sharing dreams. We do have a great vision for the company. I just think we need to deliver this for now and make sure the investors understand that we are solid, that what we're saying we're doing. And once this is attained and the actual gaming business is producing the EBITDA that we discussed and the profitability that we discussed, well, I would be more than happy then to start sharing the vision and dream here.

Bhavesh Patel: I appreciate FC, your personal involvement as well moving to Europe and getting Bikram on board, excited and all the very best.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: I'm pretty new you to the company, so I have some basic questions. How much revenue do we generate per subscription, Gaming and Video segment? And what is the number of paying users?

Francois-Charles Sirois: Radhika, I'll let you answer this one.

Radhika Venugopal: Yes. The Mobile Gaming revenue generated this quarter is around INR 25 crores.

Pradeep Rawat: That's for Gaming. And what is for the Video segment?

Francois-Charles Sirois: I just want to clarify on the Gaming. So, the active subscriber base is 7.6 million. That's what we disclosed, right, the active base. Just to be clear, those are subscribers that we have in the billing system. So sometimes we bill them in a month, it can be two months, it can be longer. But you understand those are those that we bill. The ARPU on Gaming is around, depends per region. So, Radhika, you want to give the general ARPU which is?

Radhika Venugopal: In Gaming around INR 27 to INR 28 is the ARPU in Gaming and the Mobile Entertainment is also close to around NR 15 to INR 21 is the ARPU.

Pradeep Rawat: Okay. And what is the daily and monthly active user count?

Francois-Charles Sirois: We don't disclose the actual active users. It depends the multiple ways. We have multiple definitions. But that's something that we should start disclosing. So, in the future calls, we're going to put it in the investor deck. And just for you to understand, right, the notion of active users is very different.

On Tones, we have like 55 million active users. Now what's really particular on Tones. I'm paying for the service, but I'm not using it for you when you call me. So they're all active users because they all receive calls. Although they're not actively changing their phones every month, right, but they stay active users, whereby in Gaming, you actually have to log in and start playing a game, So the engagement level is very different.

On Video service, number of videos watched. And also, on the ARPU, just for you to understand, we have a big contract here with operators in Spain. The ARPU is in some cases EUR 5 per week. EUR 2 to EUR 5 per week, depending on the service. So the range of service and the range of price really goes from INR20, INR25 to USD10, USD20 a month.

Pradeep Rawat: Yes. Sure. Understood. And with regard to the Gaming segment only. So how much of the games are developed by us? Or are the third-party games, and we just put it on our platform?

Francois-Charles Sirois: Yes. The strategy is really to get the best games, and especially for our more cut out, the last moment of the best game. So, we don't develop games on that side. On the HTML5 side, we have developed some key games, which are most popular games. So, to optimize the cost on content providers. So, we have developed very basic games on HTML5, but our focus is really to work with game developers. It's not to develop games.

Pradeep Rawat: And the difference between the gross margin and EBITDA margin on the Gaming segment. So, what is the cost between these 2 figures? And is it just that we pay the game company who have the games and provide the service platform? So, is it that or is there something else in that cost?

Radhika Venugopal: The gross margin will have only the content which is reduced from the revenues. And also, the hosting cost, which is there in the direct costs. But to arrive at the contribution margin and EBITDA, we reduce the marketing cost and also the direct manpower cost which is -- who are involved in the mobile gaming service revenues. So that's the brief of the costs, which are included in the P&L to whatever contribution margin.

Francois-Charles Sirois: Sorry, just to clarify on this point for you to really understand the business. So when we launched marketing, the actual ratio marketing to revenue should be around 50%. When we launch, sometimes it goes up to 75%. It's more expensive than we optimize it to 50%. Once we really optimize, we can go even below 40%. Some gaming companies actually operate sometimes at even 30%, I've seen 27%. I mean that's the lowest, depends really on really the brand recognition and the virality kicking in. But a good metric is between 40% and 50%. So, if you take 40% or 50% is marketing, gross margin, cost of content and the hosting, we try to keep it at 10%, gross margin of 90%. And the rest is about manpower. That's where we aim for a 25% EBITDA margin.

Pradeep Rawat: Understood. And with regard to our revenue share from Gaming, so it was 18% in first quarter of '24, then it reduced to 16% in the fourth quarter of '24. So, what could be the reason for the fall in revenue share?

Francois-Charles Sirois: Half of the revenue is coming from the contract we lost in India was from Gaming. So that's why we had a down there, which we cut back up.

Pradeep Rawat: Sorry, I didn't understand.

Francois-Charles Sirois: So, we have a key customer that for financial reason had to stop every content provider, not just us, everybody using the wallet, which right now, almost 100% of our revenues come from wallet use. They changed the price impact. So, we could not use the wallet anymore, so we lost these revenues very rapidly.

So, half of that was Gaming. The other half was our other service, like Tones and Content services. So that's what happened. So because the share of gaming was bigger on that customer that we lost, that's why you see the decline here.

Pradeep Rawat: Yes understood. Thank you and all the best.

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

Prakash Ramaseshan: Sir, just a follow-up question on Chingari. We had made a strategic investment in Chingari, because that time, we were looking to follow a retail strategy for the Gaming business. Now we've gone back to our strategy of B2B2C. So, are we looking to divest Chingari investment? How are we placed today on the investment and what are the plans going forward? If you could just give us any thoughts?

Francois-Charles Sirois: Chingari actually switched their model, and they went on the App Store in the last year, and they got a pretty good growth on the App Store. I mean, a surprising one because as you know in order to make App Store revenues starting at 0 and growing is very tough and they actually made that switch very well done.

Chingari is planning to raise money in the next 6 months. Obviously, because of the Gary Token has an impact on the Bitcoin pricing. I mean their profitability all with crypto money. As crypto rises, it rises the value of the company. Everybody, all the influencer on the platform get paid with Gary that's the intrinsic value of the platform. Our view, clearly, I mean, we did not get the synergies that we're expecting with ONMO. As you said, we focus on B2B instead of B2C, but even on B2C level, the way Chingari operates and the way ONMO operates, I cannot say it was a direct profitable deal on that side. On the investment, though, we're not worried. We're very secure on the investment. Valuations that are in discussion right now are higher than the invested capital that we have. So yes, the strategy would be that in the coming year we will. So, I was just mentioning that by the end of the year on the next raise we will aim to do a secondary and accept our position.

Moderator: Thank you. The next question is from the line of Chethan Dhruva an individual investor. Please go ahead.

Chethan Dhruva: I just had one question on this margin bid that you talked about earlier. So, you were guiding for an EBITDA margin of 25% or was it the contribution margin which is 25% because I think the CFO mentioned that only the direct costs are included in the contribution margin. So, the EBITDA margin would also have the indirect costs and therefore should be lower. So, what was the guide 25% for was its contribution.

Radhika Venugopal: 25% upwards is for the contribution margin which will include all the direct plan per cost. So, if I include allocated manpower that is when I arrive at the EBITDA margin.

Chethan Dhruva: Okay. And how much would it reduce it by I mean, at least what would be the EBITDA margin for next year?

Radhika Venugopal: Yes, these will be all allocated percentages. So it will not be much a few percentage here and there. As of now, I would not have an accurate number for the next year.

Chethan Dhruva: Okay. So, would like 25% go down to 23% or something like that? Is that reasonable?

Radhika Venugopal: A few percentages down.

Chethan Dhruva: Okay. Thank you.

Moderator: Ladies and gentlemen, as there are no further questions I would now like to hand the conference over to the management for closing comments.

Francois-Charles Sirois: Thank you all for joining. Next call is in November, beginning of November. So, I look forward to giving you good results. And I thank you for joining this call.

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

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.