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## Q2 FY2020 Investor's Conference Call October 31<sup>st</sup>, 2019

**SPEAKERS:** Mr. François-Charles, Chairman and CEO;  
Mr. Ganesh Murthy, Chief Financial Officer;  
Mr. Sanjay Bhambri, President and COO.

**Operator:**

Good evening, ladies and gentlemen. I am Avinash, the moderator of this call. Thank you for standing by, and welcome to the OnMobile Q2 FY2020 Investors Conference call. For the duration of the presentation, all the participants' lines will be in a listen only mode. There will be an introduction to the results followed by a Q&A session.

Joining us today on the call are Mr FC, Chairman, and CEO; Mr. Sanjay Bhambri; Mr. Ignacio Martin Velasco; and Mr Ganesh Murthy from the management team. Before we begin, I would like to mention that some of the statements made in today's call maybe 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 likely events or circumstances. Please be advised today's conference is being recorded. I would like to now hand over the call to Mr FC. Thank you, over to you, sir.

**François Charles Sirois:**

Thank you, moderator. Thank you, everyone, for joining this call. This quarter has been a good quarter for us with substantial growth across the board in our revenues and profits. First, I want to highlight is that it's a broad revenue growth. Seven of our top ten customers have been growing this quarter. Also, I want to point out that on the Tones side, we had a growth 4.6%, which is first growth in many quarters of de-growth in Tones. So, I'm happy that we have stabilised the Tones part. The third point is the optimisation initiatives that are starting to yield results showing up in the EBITDA. As you know, we have done a lot of optimisation on costs including HR / manpower. The team has done a good job on this one. The product side, we had a win on the ONMO Kids service in Italy with the big operators. So, we will be launching in Q3 on this part.

We have signed many games club also, about four, five of them to be launched in the coming quarter. And we also signed up many handset manufacturers to be able to deploy contests and actually did a test run with contests where we had up to 200,000 active users on this run. So, many things happening in this quarter, I'm happy that the revenue growth is there, EBITDA is there, optimisation is there. So, with this, I am going to leave it to Ganesh to go and deep dive into the financials.

**Ganesh Murthy:**

Thank you, FC. Deep diving into the financials in the current quarter, our gross revenue grew by 6.4% quarter on quarter to INR 148 crores as against INR 139 crores in the last quarter. As FC mentioned, all of our major product lines witnessed growth. It was a broad-based

growth quarter on quarter with Tones growing by 4.6%, videos growing by 13.1%, and games up 1.2%. You will recollect that early this year we renewed our contract with Telefónica for the next five years. And, as part of the renewal, we incurred some contract acquisition expenses. With the introduction of the accounting standard IND AS 115, we are required to amortise these contract acquisition expenses over the life of the contract and reduce this amortisation from our revenue. So, if you remove this reduction in our revenue, due to the application of that accounting standard, our gross profit grew by INR 5 crores this quarter from INR 74 crores to INR 79 crores.

Coming to the expenses side, our headcount rationalisation in internal geographies with shifting the work to low cost or lower cost countries has resulted in a manpower cost reduction of 3.2% in the current quarter versus the last quarter. Our headcount at the end of quarter two was 734 people as against 758 people in the previous quarter. Our focus on cost optimisation and closure of loss-making entities and branches continues. And this has resulted in a 15% reduction in the Opex on a quarter on quarter basis.

Excluding the IND AS 115 adjustment in our accounting standard adjustment, that I mentioned previously, our EBITDA margin is at 10.3% and has more than doubled in the current quarter versus the last quarter. Profit before tax is INR 7.1 crores and this has grown by 131% quarter on quarter despite forex losses. Profit after taxes is lower in the current quarter as compared to the previous quarter because of a higher tax outflow. And this was higher due to the reversal in deferred tax assets because we adopted a lower tax rate in India, and we had to revalue some of the deferred tax assets that we carry in our balance sheet. Now with this, we would like to open the floor for questions from the participants. Over to you, Avinash.

**Operator:**

Thank you, sir. Ladies and gentlemen, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, you may press star one to ask a question. Once again, ladies and gentlemen, if you would like to ask a question you may press star one on your telephone keypad. We will now take our first question. Please go ahead.

**Speaker:**

Hello.

**Ganesh Murthy:**

Yes, we can hear you. Please go ahead.

**Speaker:** Yes, my first question is regarding the games division. Post the Appland acquisition, can you tell us have if we have started to see the benefits in terms of the type of synergies within our own business and the cross-selling to our customers? Because I think the games division has hardly shown any growth since you have acquired that company. So, please can you throw some light on that part?

**Ganesh Murthy:** Sure. We have started leveraging the Appland platform. Before the Appland acquisition last year, we did not have a platform for our games product. We have now got a very robust best-in-class platform. And we have started going to our customers. We have already launched ONMO games with three customers, one of them in India and two of them in Africa & Middle East.

In quarter two, we have kick started with operators, four new operators in Greece, Qatar, Sudan and Brazil. There are multiple opportunities in the pipeline where we will continue to push the games product to our Tones customers. Apart from that, Appland also is growing their revenue by selling to their existing customers and also trying to make new customers apart from OnMobile. So, that is also in process.

**Speaker:** Okay, but if you look at the numbers, materially there is not much change. The last three quarters, we have been doing around INR 17 crores to INR 18 crores. So, do you think that it is – it will take much longer for the revenues to accrue, that is what you believe in terms of numbers?

**Ganesh Murthy:** Yes, it has taken a long time for us. Our experience shows that to develop a significant mass of subscribers, it takes at least six months for us to reach a critical mass. And during that period, we have to engage and spend a substantial amount of money on customer acquisition costs to acquire these customers, and then once we hit the critical mass, then the revenue starts building up.

So, all this, I mean we acquired a Appland only one year ago, and over the last few months we have already got about eight customers outside of Appland. But it will take some time for us to grow revenue with these customers.

**Speaker:** And within that, when you say ONMO games, this is again a B2B2C product, right. It's not a B2C product, correct?

**Ganesh Murthy:** It's a B2B2C, yes. You are right.

- Speaker:** Okay, so we are basically again selling to the operators sort of that product?
- Ganesh Murthy:** That is correct, yes. We are providing a full-fledged solution to the operator and it will be branded as a white labelled product
- Speaker:** And do you think there is going to be any material impact in the numbers because of this or do you think that there will be only incremental changes within the context of the size of your business? So, will we see any sort of significant shift in the trajectory of the games as a part of the overall business? Today, it is I think hardly 10-11%. It's not even that actually, yeah. So, any comments on that?
- Ganesh Murthy:** The idea is just not to just grow the current games portfolio. It is also to enhance our games and spend more money on R&D, develop the games portfolio, get into social gaming, get into HTML5 games, and expand the portfolio. So, that is where the growth will lie.
- Speaker:** But I think what I understand is that you basically allocate games. You won't spend on developing games, right?
- Ganesh Murthy:** No. When I say developing games, I meant developing the platform. The games itself will remain the same. I mean the games are procured from the various games studios around the world. But it's the development of platforms so that we have social gaming, gaming with gratification. So, I can play a game against you, and we can win money and things like that. That is the next step in the games.
- François Charles Sirois:** As we discussed the last quarter we had a big growth last quarter on the game subscriptions. We announced about 40%. Now this quarter is stable. We have done a lot of deployment on the Appland side, and we are pushing a lot of new deployments on the OnMobile side. Now of course as Ganesh said, it takes about six to nine months to get to a good start; and to get to maturity, you can expect about a year before we see material revenues. So, we see that the next quarter's coming along. And I think in 2020 we should see an impact of games revenue.
- Speaker:** Got it. Got it. Secondly, on the contest side, we have done a lot of changes. We have digitised the product. We have increased the reach of the product from India to Middle East. But again, the same question, the revenues have actually gone down. If you look at say four to five quarters back i.e. the fourth quarter of FY18, we were doing INR 10 crores, INR 9.8 crores. This time, it's INR 5 crores, it's 50% down. So, can you just explain exactly what – how do we interpret this information?

**Sanjay Bhambri:**

Hi, this is Sanjay here. So, fundamentally you will see a little bit of seasonality in the contest. To just give an idea, when the cricket season happens, the contests goes up. For example, now, if you look at Diwali, most of the markets the contest goes up. Otherwise contest goes down to a mundane gamification platform where it is used for enhancing the experience.

So, if you look at most of the products, the contest is one which has a lot of swings based on events which happen. So, if you look at the last quarter, there was not much on the cricket side. But if you look at now this quarter, we already have Diwali for example in India, and parts of Middle East and Africa. And if you look at we just announced that we are doing the gamification/contest for Airtel for Diwali Mahotsav which happened. So, basically, I think it's more to do with a little bit of seasonality within the last quarter and this.

**Speaker:**

Yeah, I agree on that point. But if I just take a trend even sequentially quarter on quarter, for the last since you have not given the numbers, you gave the percentages, right. So, if I just calculate the numbers in terms of absolute INR gross, it is from 9.8, 7.8, 6.5, 6.57, and then now it's 5. So, there is a material de-growth which we are seeing. So, I am sure seasonality has been taken care of because Diwali will happen in any of the quarters every year, if not at the same quarter. But I mean are these numbers not reflecting the reality, so do you want to say that in reality we are growing in contest or in reality it is going down if your subscriber base is going up? Can you just explain that, because at least number are depicting that this is for last six to seven quarters the trend is downwards? So, maybe it's something beyond the numbers?

**Sanjay Bhambri:**

No, I think your question is valid based on the data you are looking at. I think there are two layers to it which you need to connect. Fundamentally if you are looking at the last seven to eight quarters, we were only doing contests in India. It was completely dependent on the operators; and with Jio coming in and bundling services, obviously, the revenues were going down from the operator wallet standpoint, which is what you are referring to.

That is when we moved our strategy – we did two things which has been all in public domain. One is to take the contests outside India, and the second is to digitise it and get it into different platforms from an engagement standpoint. So, if you look at that, the earlier trend what you were looking at is primarily coming up because of just being dependent on one country and on operators.

That trend obviously continues. But if we see the stability, and of the revenues coming in for the last two quarters the seasonality coming in, primarily all the new things which are kicking in internationally is making it stable and gradually growth. So, basically you need to connect both of them and you will be able to put the numbers in the right perspective.

**Speaker:** Okay, and within videos, we showed a very good growth this quarter, and can you elaborate on what are the things which we are doing, and how can we see this particular product going forward – how can this look like in the future?

**Sanjay Bhambri:** Fundamentally FC in the start had talked about it. We have launched a new service called Kids, which relies a lot on the video. And further, there is a new traction which is coming in the Kids services which over the next quarter and quarter and a half, we will be coming out and announcing as to what new acquisitions we are doing. All that is adding to the growth of the videos. So, video is a vertical, we have lot of things sub-verticals which play a lot of traction. And at the moment we are focused on Kids. We are focused on women and segments like that. So, there are segments which are growing and that is helping us to grow in the video.

**Speaker:** Okay. So, we are open to doing inorganic stuff in within videos, that's what you are saying?

**Sanjay Bhambri:** Inorganic?

**Ganesh Murthy:** No, it's not inorganic. It's organic growth. It's a different offering.

**Sanjay Bhambri:** Vertical, it's a different vertical.

**Ganesh Murthy:** It's a different sub-vertical I would say. Under the video vertical, it is a sub-vertical where we are offering specific content tailor-made for kids.

**Sanjay Bhambri:** So, curated for kids consumption which typically is a new vertical, we are having a decent traction, where all the videos are revolving around the age group and parents basically subscribe it and the kids consume it. So, that's a vertical. It is completely organic.

**Speaker:** Okay. Any development on the Bangladesh side where you had the partnership with bKash, because you don't speak about that in the investor presentation ?

**Sanjay Bhambri:** Since it's a first deployment with a payment wallet and a mobile financial services, also it is the first for bKash itself. We have been

going through integration and some of the key elements, features required from a financial wallet which has to be in the realm of the local laws – financial laws of the country, not the telecom laws. We have been doing that and working with bKash in Bangladesh to do that.

More or less, we have come to a point where we have been able to mitigate all the, if I can say, conditions which are required to use the wallet in Bangladesh. I think over the next 30 to 45 days, we should be in a position to go live. And once we do that, obviously, we will come back to all you guys and announce that we are going live. And then over a period – after that, over a period of quarter or so, we should be able to give you some KPIs on that.

So, as much as you are trying to get information on it, I think we also are quite anxious to have it rolling out and start learning and doing some good work there.

**Speaker:** Okay. And in the recent quarters, we had this announcement of stake sale by promoter to an entity called Jump Networks. You have not mentioned anything about that in the IP, nor any commentary. So, can you please comment here about that what exactly is the update.

**Sanjay Bhambri:** I was saying, that is more to do with the promoter which is FC rather than OnMobile. So, I will have FC answer that

**François Charles Sirois:** We announced Jump is looking to buy 18%. The deal, we still have a good month to complete the transaction. So, we are looking forward to complete the transaction by the end of November. And right now, we are analysing with the team the synergy potential of their product line to be distributed across OnMobile; and on the product development side with our mobile expertise how we can really help them on their product side. So, that's what we are doing right now. So, you should see some news in the coming months on this.

**Speaker:** Okay. So is it more of a financial investment or is it a strategic investment? Can you just elaborate on that, that will be very helpful for us?

**François Charles Sirois:** No, it's actually very good news. Jump Networks looked at OnMobile, looked at the distribution and the capability to develop mobile products. And they came up with their interest in purchasing 18% of OnMobile as a one-times revenue multiple plus cash which is in the range of INR 75.5 to INR 78 per share. So, that's the agreement we have.



And I think a very good news is that I have been saying to everybody that for me the pricing we have today is really undervalued compared to our competitors and considering the cash position that we have. So, I was happy that we have somebody from outside that looks at our company and the potential of the company and is willing to put a decent valuation on the company.

**Speaker:**

Yeah, I agree on that. But it seems that the market is not pretty convinced because the stock price hardly moved after that news. So, maybe there is some scepticism around the deal. I mean I don't know what is the deal, but because the company Jump Networks has majorly business outside India. This is India, so we don't see any relevant business which looks say complementary to our line of business. So, I thought it was a pure financial investment. But you say it's not financial, it's strategic.

**Speaker:**

When I go through the company's annual report and read about the business, it does not look like it is anywhere close to the kind of business which we are in. So, it looks a very different business. So, I was just wondering whether it was an investment which is pure financial in nature. That was what I was thinking. But you say that it's actually more strategic. But I could not understand the complementariness of the business of Jump Networks.

**François Charles Sirois:**

It's purely an investment – yeah, go ahead Sanjay.

**Sanjay Bhambri:**

Yeah, maybe I think I can help you out here, FC. So, fundamentally I think one thing the key element we are proud of ourselves is that we understand the mobification of businesses. So, I think the key lens you might be missing is that we are good at creating services on mobile platform. And since any organisation, which wants to get into a mobile platform, would need a skillset and reach, and OnMobile could provide that. So, I don't know the reason, but I'm just putting one sense which maybe the less people might be looking at. Back to you FC?

**Speaker:**

So, your point is that the – sorry.

**François Charles Sirois:**

Go ahead again, sorry.

**Speaker:**

Yeah, so you mean to say that the acquirer wants to create a presence within mobile space and OnMobile is a good vehicle to do that, and, therefore, he is willing to pay, right; that's what you mean to say.

**Sanjay Bhambri:** I'm not saying, I think that could be one lens because I'm not above people who are buying it, but I'm saying that could be one lens because if you look at it, how many organisations are there today in the market who have the credentials of running mobile services and have a reach of 1.8 billion handsets in the world and have all the continents covered with operators, etc. So, there is the credentials of that. I'm saying that could be the lens. I can't confirm it or, but I'm saying that the lens you may want to look at it. And then you will see the whole thing in a different colour.

**Speaker:** Okay, but that two, three facts, which come out very strange is promoter of the company. I meant there is no promoter as such if you look at the data. There is no cash on the balance sheet. So, it just – a lot of questions have been sort of pop up, right, because how will they fund this acquisition. So, that was the reason why I was asking this question. And if you look at the market reaction, there is hardly any change in the stock price. Actually, it's down after that announcement or just it went up that day. So, what the market is saying they are not convinced with the deal. But anyway, I leave that to the market. As you say, the stock is still I mean INR 33, so they are selling at INR 75. So, why not buyback, right, because I have a lot of cash. What do you think about that proposition?

**François-Charles Sirois:** That could be a second option, but I just want to come back on that deal. I don't know, I do a lot of deals in America and in India. When I announced the deal, it's a real deal, it's not a fake deal. I don't do fake deals. So, I can confirm to you that they have the money. It's a real deal and we are looking forward to completing this transaction. And from their point of view, this investment enables them to work together on the products, really helping them on their product side.

And I think it's a true win-win, so we will be able to announce in the next coming weeks the transaction in a bit more details and what we are doing with them. But either way, with this deal or not, I still think that our stock price is undervalued and that is not even a forward-looking statement. That is just a fact if you look at comparables. From my point of view, that's yes, of course, I'd like the market to realise this and appreciate that we are working on real deals.

**Speaker:** Okay. I think in the press release you said that at 75 days within the signing of SPA where we approve the deal, so that's – yeah. So, before to the announcement and in more details, definitely even if – and are interested to see the company stay at its fair value.

**François-Charles Sirois:** Yes.

**Speaker:**

So, in terms of – if I take a five year just view on the business and the kind of changes which we are making, do you want to hazard a guess about how this company OnMobile can look like in the next five years, A, in terms of product mix, size, in terms of say the margins? So, can they materially be different, or you would think that it's a 10% EBITDA margin business and that it will remain the same or do you think the kind of products which we have – will be launching and also the acquisitions we have done, can they have a impact in terms of how this business looks like? I'm just asking for a five-year or if I look at five year down the line how our company can look like. So, do you want to give some colour on that how do we look at this?

**François-Charles Sirois:**

I don't want to give forward-looking statements. But for sure, I can share my vision as I shared with you in the last quarters. The number of services that we launched this year was never been done before. We should add within the next year many new services in the market, and more and more of that services also that don't depend on mobile carriers that are with OTT players, that are with handset manufacturers directly or that are direct to consumer always using mobile platforms.

For sure, this will have an impact on our revenue mainly. We cannot launch that many services and not expect positive impact on our revenue. So, we are doing this because we believe we will be able to grow revenues, and we should be able to of course, also grow our EBITDA margin. So, that's the target now.

Now in terms of size of the company and in which segment it's going to be bigger than the other one, of course, as you can see the growth coming into games and contest, and video is outpacing the Tones market that we have. So, that's a bit of the insights I can give you, but we are putting a lot of effort on product there and a lot of efforts on deploying these new products across many geographies which we will be able to launch new services; and we are seeing traction. So, it takes time for this service to gain maturity. Some of our competitors in the gaming, it took them up to three years to get the service a mature cruising speed. So, I know we have to be a bit more patient than what was expected but that's the direction we are going. At least as you can see with these results we are going in the right direction now.

**Speaker:**

Okay. And within all this context, do we have any plans of doing more acquisitions, maybe bolt-on acquisitions to acquire capabilities, and are we actively looking at those opportunities also?

**François-Charles Sirois:**

We looked at many acquisitions. Right now, I am not, the thing is striking to me that is it worth doing right away. But as you know,

when we see the right opportunity, we will be able to move. So, something can certainly pop up in the next quarter which makes sense. So, we are always looking in what market has on that front.

**Speaker:** Okay. My next question is to Mr Ganesh Murthy. This quarter even if you ignore the movement in DTA, it would be current tax. Still tax it comes to 50% plus, which I believe was trending down towards around 30%. So, any colour on that and where do we see this stabilising the effective tax rate?

**Ganesh Murthy:** Our aim is to come to a effective tax rate of about 50%. There have been certain one-time tax hits in this quarter. We had to derecognise some of our deferred tax assets in some geographies because we did not get a forecast of profit situation in those geographies.

And also because of the change in the tax laws, the Government of India reduced the tax rates, and we had to take a hit because of this – we have to value our taxed assets with the future rate.

**Speaker:** Yeah, absolutely.

**Ganesh Murthy:** Yeah, but I think overall we are looking at somewhere around 50% is our objective.

**Speaker:** Did I hear 15% or 50%?

**Ganesh Murthy:** 50%.

**Speaker:** 50%.

**Ganesh Murthy:** That's right.

**Speaker:** Okay, so we will still be on a higher side in terms of effective tax rate compared to what is there in India.

**Ganesh Murthy:** That is correct because the main reason for that is some of our entities are making losses, and we don't have the advantage of accounting those tax losses. So, if you look at it in computed effective tax rate, the numerator remains the same but the denominator decreases because of the losses.

**Speaker:** I get that. Secondly, in terms of rationalisation of headcount, you have done a wonderful job in terms of controlling the costs and we have been cutting the flab; and the personnel, how much scope do we have further to enhance operational efficiency?

**Ganesh Murthy:**

I think on manpower cost, we are fairly optimised. What will happen is some of the savings that some of the people that we let go, the savings from that from Q2 – full impact of that will be felt in Q3. So, we will continue to see a reduction in manpower cost in Q3, and that is because of the initiatives that we have been doing over the last one year.

So, if you recollect, last year, we closed down France office. France was obviously a very high cost location. We had to let go off people there. We reduced some headcount in India because Idea and Vodafone merged together, so we had a redundant headcount. We closed down our office in the US, and did some rationalisation there. Rationalisation in Latin America, rationalisation in the UK in the last quarter. So, the full impact of this will happen in the Q3. And after that, I think it will be a steady state.

**Speaker:**

Okay, got it. And these savings to me intend to redeploy in marketing or we want to retain the benefit? How do you look at that savings per se?

**Ganesh Murthy:**

So, it is not a question of redeploying the savings into marketing. Our marketing, the way we conduct marketing is we do a cost benefit analysis for any marketing spend. So, if we want to launch a campaign, let's say in Nigeria for customer acquisition, we look at what will be the spend, what will be the number of subscribers that we can acquire, what will be the revenue generated and the margins generated from the subscribers, what would be the lifetime. So, basically, we compute the IRR from the marketing investment. Only if it makes sense we go ahead and proceed with the marketing spend. So, the marketing decisions are very well-calibrated, very well thought-out decisions. There's no point in spending \$1 in marketing and getting only half a dollar of margin, okay. So, it's important for us that we make sure that marketing spend is – the IRR remains at a positive figure.

**Speaker:**

Yeah, I appreciate if we look at the IRR and/or the absolute amount of marketing. So, last year in FY'19, you were – it would be around INR 34 crore on marketing expense. Now the first half it is around INR 15.4 crore, so had a similar run rate. So, based on your understanding of the opportunities in different markets and the new products which we are launching which might obviously require investments in marketing, do you see that this run rate of INR 33-34 crores per year is enough, or do you see that there is scope for us to be more aggressive and putting more money, dollars behind marketing?

**Ganesh Murthy:**

I mean I would love to have more money on marketing. In fact, I think, currently, we are underutilising our marketing budget. And that is because every initiative we look at the IRR, and if the IRR is not above a particular threshold, we don't go ahead. But I'd seriously, I would love to see more marketing spend because that is the way we will get more subscribers, we will generate more revenue and ultimately more profit for the company.

So, and again, the kind of businesses that we are doing like let's say for instance, the launch of bKash, the launch of various Games Clubs all across the world, so these are marketing intensive initiatives. And so, frankly speaking, I would say we should be looking at higher spend of marketing than the current run rate.

**Speaker:**

Got it. And the cash flow, which for the last two quarters, we have turned into negative cash from operations, right, if you have noticed. It was one of the biggest trends every quarter. But this has not been true for the last two quarters. So, do you want to spend some time what is happening there and some, you know – so this quarter example receivables have gone up by INR 20 crores in the quarter and also some other assets have gone up by INR 31 crores.

**Ganesh Murthy:**

Yeah, so this quarter actually, our cash went down from INR 251 crores last quarter to INR 234 crores. There are two major reasons. One is, as you pointed out rightly, our receivables have gone up. And the reason why receivables have gone up is three big customers of ours did not make the payment by the due date. They delayed the payment, and that had a significant impact. Just three customers had a significant impact on our receivables. But the good news is that we received all this amount from the customers in the first week of October. So, there was a delay of one week, and that resulted in a higher DSO and a lower cash flow.

The second reason for the lower cash flow is in the month of July, we made a payment with this our contract acquisition charges. So, we made a payment of over €4 million to our customer as part of our agreement on the renewal, and that, of course, you will see that reflected in the increase in other assets because that is treated as a prepaid expense, and it is amortized over the life of the contract. But the cash actually left the company.

**Speaker:**

Okay, so you said €4 million, right?

**Ganesh Murthy:**

Yeah €4.3 million, actually, to be precise, so something like about INR 40 crores. So, if you take both these things are – also we had a dividend distribution tax. We declared a dividend of INR 1.50, 15% dividend that we declared in September. And the dividend outflow

happened on 1<sup>st</sup> October, but dividend distribution tax of about INR 3.3 crores also happened in September. So, all these reasons why the cash balance has come down. But all these things are perfectly business in nature. And if you look at it today, our cash balance has actually gone up as compared to end of September.

**Speaker:** Okay. And this payment, which you have made to the customer, the prepaid expense for the contract renewal, what is the contract time period, three years or less than that?

**Ganesh Murthy:** Five years.

**Speaker:** Five years?

**Ganesh Murthy:** Yes.

**Speaker:** Okay, great. So, I think even in the last quarter, Q1 also cash had reduced from 270 to 250, and now we are to 230. So, in the previous quarter, the reason was having payables had – some payables decreased significantly. But it has normalised in this quarter now in terms of payables, but receivables have taken – and then taken a hit. So, going forward, you see that this cash level should increase from here on. That's what you want to say?

**Ganesh Murthy:** Yes.

**Speaker:** Okay. And again, do we have any in terms of any plan of capital allocation around this cash or do you want to be open about this in terms of you want to use it?

**Ganesh Murthy:** No, I think as FC mentioned, we were talking about inorganic growth. If there is a right opportunity, we are not averse to investing if it is complementary to our business. And also, as always, we have done three share buybacks in the past. So, again we are not averse to doing a share buyback also at some point of time if the board feels that it is required. So, that's why we keep our cash – if all our cash is put in liquidity, it's very important for us. So, our cash is invested safely in liquid mutual funds.

**Speaker:** And how much of this cash would be in India and versus abroad?

**Ganesh Murthy:** 73% as on end of September.

**Speaker:** Would be in India?

**Ganesh Murthy:** Yes. It is 73% is in India as on end of September.

- Speaker:** And two years back, what would be this number be in India? How much cash would have been in India? I think we have increased the cash in India over the last few years I think.
- Ganesh Murthy:** Around 50% to 60% roughly two years ago. So, we have taken a conscious decision over the last few quarters to bring more money to India, and to keep it in India for two reasons. First of all, the returns are attractive in India. Second reason is Most of our employees are in India and we need to pay dividend in India. So, that's the reason why we try to focus and keep a large part of our cash in India.
- Speaker:** Okay, got it. And just one second, if I look at the revenue by geography, we have seen that Asia has grown decently well I mean from a small base excluding India obviously. So, which countries are driving the growth in Asia excluding India obviously, if you exclude India? So, for example, Asia is now, how much, 6% of the revenues now compared to 4%.
- Ganesh Murthy:** 6%.
- Speaker:** Yeah. So, this is coming from which Country?
- Ganesh Murthy:** It's mainly in Bangladesh. All the telecom operators in Bangladesh are our customers. It's a good market for us. We are growing there. And we recently – as Sanjay mentioned, we have also tied up with the largest payment wallet provider bKash. So, we expect – we continue to grow in Bangladesh, and we continue to expect good growth in revenues in Bangladesh.
- Speaker:** Okay. My sense was that we are growing because of maybe Middle East – we are in Qatar and all, we are launching our games and so that was my guess – but it's not that?
- Ganesh Murthy:** So, that is Africa and Middle East.
- Speaker:** Okay, got it. Sorry. So, do we believe that our growth trajectory can go to 10% plus in the near future in one or two years or – based on the market scenario, or it's difficult to do that growth rates considering catastrophe is happening in telecom India, we have seen that happening very fiercely. So, it is that environment – what is your take on one competitive positioning, one over customers? And for example, in India, is it correct that we are only catering to say Airtel and Vodafone, right, and BSNL maybe, right, not Jio?
- Ganesh Murthy:** That's correct.



- Speaker:** Okay. But I think in the other markets, are we seeing some pressure in other countries like what it is in India?
- Ganesh Murthy:** No, India has been a bit of a quite a complicated picture because of the entry of Jio and because of the severe competition in the telecom sector and consolidation of the telecom sector. The other markets, we have not seen such huge pressures.
- Speaker:** Okay, got it.
- François-Charles Sirois:** Thank you for questions. Maybe we should let anybody else since we are on the line with other people. I don't know if there's other questions in queue.
- Speaker:** Yeah, if there are, I'm sure, I mean yeah, sure, thank you.
- François-Charles Sirois:** Thank you very much for all your questions.
- Operator:** Thank you. Ladies and gentlemen, if you'd like to ask a question please signal by pressing star on your telephone keypad. We will now take our next question from Chinmaya Garg from Dron Capital.
- Chinmaya Garg:** So, this is the first quarter after a lot of quarters that we have seen some sequential growth in our top line. Is it fair to assume that the trend of decline has reversed now?
- Ganesh Murthy:** Yes.
- Chinmaya Garg:** Okay. So, we used to do at peak around INR 200 plus crore of turnover each quarter. In your assessment, when is that possible?
- Sanjay Bhambri:** Ma'am, we are working 24/7 to go there.
- Chinmaya Garg:** Just a ballpark number – sorry?
- Ganesh Murthy:** Yeah, so I don't think we can put a date for that. The objective obviously is to grow our revenue, and we are making steps, we are taking steps at that direction. But at the same time, we also need to look at our profitability. We need to protect our EBITDA. So, it's a balanced approach. We are always looking at profitable growth. I mean if required, if we want to sacrifice profitability, we could have grown by 10% quarter-on-quarter very easily by investing in marketing spend and suppressing our EBITDA. But that's not the objective. Our objective is to provide a profitable return to our shareholders so we continue to be focused on both.

- Chinmaya Garg:** All right, but keeping that balance that you are talking about in mind, that number is achievable, right? Sometime in future, but let's say in couple of years, but that number still looks achievable at some point of time?
- François-Charles Sirois:** Yes.
- Chinmaya Garg:** All right, thank you. And we haven't talked much about our B2C initiative. So, what is happening on that front? How are we progressing there?
- Ganesh Murthy:** FC, you are taking up?
- François-Charles Sirois:** Yes, B2C, we have worked a lot. Right now, the strategy that I see to work with partners. The DNA of OnMobile has always been to work with operators before going to the customers, that we share some marketing spend with the operators in any market. Now, we are pushing with all the big wallet providers like bKash. We are pushing with big handset manufacturers, OTC player. My view is a partnership B2C, not a pure direct to consumer for now, and it doesn't mean we won't go direct to consumer one day, but from my point of view, right now we are deploying very good new platforms and new services with the new kind of partners, customers let's put it this way. And we are going to start investing in marketing, you know we took the example of bKash for example as soon as we launched. Obviously, there is a big marketing budget coming from bKash. We will add to that budget, and it's purely a B2C initiative. So, that's a bit the way we see the next year going.
- Chinmaya Garg:** Okay. And we had also mentioned earlier that we are looking for innovations in our RBT product. Any progress on that front?
- François-Charles Sirois:** So, we did a lot of innovations, Sanjay go ahead.
- Sanjay Bhambri:** Yeah, so fundamentally, to start with, the whole digitisation of the service has been done. Just to give an idea, today, we have reached more than five million people in India who have downloaded the app and had experienced digital experience and Ringback Tone as a one element.
- Second element is monetising the space or through advertising. We have done few pilots with large marquee of the brands in India. And over the next quarter, we were trying to get to a product state, where we can announce it to the market. So, yeah, there are things, which have happened digitally easy, which is already happening. You can experience yourself. On the other element, the pilots have

been done and hopefully we should be able to come back and announce some news for you over the next quarter.

**Chinmaya Garg:**

Okay, thanks, look forward to the launches. Thank you.

**Sanjay Bhambri:**

Thank you.

**Operator:**

Thank you. We will now take our next question. I request the participants to please state your name before posing the question. Thank you. Dear participant, your line is open. Please go ahead.

**Speaker:**

Hello guys. Can you tell me what is your return on equity for the last one year or three years? So, I hear a lot of stuff about your sales and blah-blah, right. Can you talk about your return on equity for the last one year?

**François-Charles Sirois:**

First of all, we have a – if you look at our dividend rate, you get a good return of – now depending on what price you put the stock, but you get a good 4% dividend. For potential growth stock, I think it's a great mix to be able to have a dividend and the potential of the company.

**Speaker:**

FC, that's your way of valuing the company. But I think if you can just mention the return on equity, right, because you are not a brand, right. You are selling it an operator and you are just a service company, which has been promoted like a product company, right. So, internally, you don't have a brand value right, an Amazon or a Google or a BookMyShow. You don't have any brand value. That's the operator brand value, right. So, for you, the key measure is return on equity. So, your return on equity is 3-5%, and that's the reason nobody is valuing you correctly. So, why are we positioning ourselves as a – yeah, do you have a brand? Do you have any brand value?

**François-Charles Sirois:**

On the brand value, you are right, we did the OnMo brands in the past around Tones and now we are going to be pushing the brand in the coming future with partners. But yes, you will see more and more brand value.

**Speaker:**

So, you are a service company and I think you are positioning yourself as incorrectly, right? I heard one of your senior guys talk about 24/7. There are lot of people who work 24/7. Are there salaries in line with what the other person gets? So, I think there is a kind of people – the management in OnMobile has always been very arrogant and they don't talk facts, right. Now, in terms of content cost right, your content cost is 40% of your sales. So, can you benchmark your content cost? So, let's say tomorrow you have

doubled the subscription rates, right, what will your content cost be? Is it a fixed cost or it's a variable cost? Because to me that 40%, I don't see you doing anyway more than 10% EBITDA, am I right? And your return equity will never be more than 10%. So, what is your content cost going to be as a percentage of sales? Can you give a guidance on that?

**François-Charles Sirois:**

If you look at it, the more distribution you get, the more revenues you get – The content cost will decrease, and I really see that we should be able to have a higher EBITDA margin than what we have today. So, the profitability will increase for sure.

**Speaker:**

So, it would benchmark your content cost as a percentage of sales. I agree, so let's say my only worry is I don't know whether your campaigns are successful. So, you need to have benchmark against how many people your campaign should target, right, or what is the revenue it should generate, right? Today somehow everything – see, the smart people really understand where you people are, right. 40% is content cost. Then you will make more than 10% margins right because you have a fixed cost attached to it, right. So, you need to benchmark and make it more transparent, right.

I think nobody knows 1 million, 5 million, 20 million how many products a person should achieve, right. And I think this company forever has been very arrogant in terms of they create a product, they create their own benchmark, there is no transparency about the product, the revenue, right. And that's the reason nobody values you, right, because there is no way we can actually – you should put up the numbers saying my content cost will be 20%, 50% of my revenue. Spotify does it. Lot of other competitors of you does it. You never do it and the market really lacks trust in your management, and that has always been the case with you all.

**François-Charles Sirois:**

Then I need to do a matrix for each product. And I like exactly because the product cost, the content cost change for each of the product. So, I have a full detailed business case, that's what I should do, but then it's getting complex as you know because we have fixed cost also; then you have to get into cost allocation for the base.

What's been challenging in the last three years, I say that, of course, we had a big revenue decline in India, and it put a lot of pressure on cost. So, we put a lot of efforts on cost optimisation to be able to operate this business at lower cost, but for every revenue that we add on top of it, the margin is way higher than the revenue that we lose. When we lose revenue, then it becomes very tough. So, we even do profitability at this stage, let's say you know what, the team has done a great job.

And back on the new services that we launched, there is a cost to launch new services. So, when we say that we are going to be launching 100 new services in one year, that's a cost. There's a cost that you see in the line there. And the revenues take – you know, new services, it does take two, three years to really capture and mature revenues on these services.

So, if you do the model of the – yes, of course, out of these 100, a lot of them will not work, but a lot of them will outperform by far. If you look at the curve for sure, the revenues will increase. We are sure the cost of content will decrease. Some product categories will cost more marketing, some others will cost less and some will be able to have very low content cost, and some others will be higher, and we will put the marketing effort and the team effort around the products that we make the more money.

Now starting to actually share all that spreadsheet with you guys, with investors, I mean it's a lot of detail which right now I'm trying to at least show the growth quarter-to-quarter, which is exactly what we are showing this quarter. But I am again, I am saying I am very positive on the future of the company. And it has been a switch going from operator especially in India where now we only have 15% of our revenues in India. There has been a big downturn in India.

**Speaker:**

All that is okay, FC. What I am just saying is you are a service company. Please have KPIs, which are Service Company oriented, right. So, don't have a product company unless you don't have a brand, right, unless your OnMobile becomes a big brand, right. Please project yourself as a service company, right, and I don't think – I think operators are taking you for a right

Airtel was your customer. You have been with them for so many years right, and now they have left you right. So, you need to understand your success product will get copied, and you are investing in products. But once you invest in products, your product gets copied, and you don't have a pricing power. So, this is what has happened with Tones. This is what will happen with games, and you assume that nobody will come into games once you launch a successful game.

So, the whole challenge has been around the basic strategy of the company where you invest for three years, and the time you will get a revenue run rate, some competitor comes in. That is what has happened with gaming. There are other competitors from Brazil, other companies which are doing gaming with all the companies you are talking about. Airtel has a company, a lot of other people have a

company. So, I think you are a service company. Please have service KPIs. And if you are not profitable, there is no need to venture into proposition, right. It is just high time that you get return on equity. Otherwise, unfortunately, I think with this kind of part, and with no brand value attached to it, I really don't see any mature investor coming into this and jump to the very strategic investment because it is giving you IP, which I think as a company you lack. How many patents have you filed in the last ten years? Have you filed like 50-100 patents? I don't even know how many patents have you filed.

**François-Charles Sirois:** Well we filed a lot of patents. Ganesh, do you have the number of patents we filed?

**Ganesh Murthy:** I don't have the number right away, but we have filed patents for specifically on RBT.

**Speaker:** That shows you the strategic shift of your management, right. Your management doesn't even understand what the world – where the needle is moving. Hearing I'm working 24/7, I work 24/8 how does it has – do I get a one million pay check? It doesn't get me a one million pay check.

**François-Charles Sirois:** And again, I think if you have no words, the output is there. It is the output that counts, not the words, so I agree with that statement. But I just want to come back on the service business model. As you know, investing in products that is a lot of money in the product and a lot of money in marketing. And I am not the type of guy who is going to take the 30 million we have and dump into marketing for launching Netflix or a Spotify or something like that because that would not even make the needle move. In all the players out there, spending a lot of money, taking gamble, and a lot of them are – and we have seen yesterday, a lot of them even if they are worth billions of dollars they don't make it and it goes down.

So, for sure, if you are investing in that kind of vision, I'm not going to go and take a gamble with OnMobile on that front. If you look at the contracts we have to date, we have more than half of our revenues which is signed for the next five years. I mean yes, you are right, a lot of it is service to operators, but it's secured service to operator. And yes, we are getting squeezed on the margins, and yes, we are doing in bits and piece and I think we are a bit short on the EBITDA margin. Honestly, I'd like to do more, but it's short because we are not just a service company. We are investing a lot in products. If we'd just be a service company, yes, EBITDA would be higher. I agree.

**Speaker:**

I will just request to FC you either be a service company or be a product company. OnMobile as a company is very confused. Now if you want to go B2C, go and get an investor, you will have enough of them. But today your KPIs are very confused. Aadhar has more than 1 billion customers, so are you saying that Aadhar will be valued just because it has 1 billion customers? The customers belong to Vodafone, Idea, Telefonica. You don't own the customers. So, trying to project that the customers belong to you is a factually incorrect statement you are providing. You are just a vendor, who is just managing the platform. So, just trying to project it in a very wrong way. I think the marketing is totally done up. And that's the reason matured investors are not investing in you (like no private equity, no senior firms). I think Jump Networks the reason they are investing in you because they see a very big strategic fit, which is in terms of IP. I'm very surprised your management doesn't see it. But I see in terms of infra if they can reduce the infra bandwidth it's a very strategic fit.

So, somehow, I feel your board, your team members all are a big joke. The kind of answers they give 24/7, this is like height of arrogance, and we have been holding the stock for last seven years, and you have given negative returns for ages. So, I just hope that you really take this time that you really have people, have the right KPIs and more of the service company KPI.

TCS is doing 30-25% margin. They are giving 45% ROI, return on equity. You are working on a 3% ROE and then there is a lot of justification around why the business should be valued more.

**François-Charles Sirois:**

I agree with you.

**Speaker:**

Okay, thank you.

**Operator:**

So, dear participants, if you would like to ask a question, you may press star one on your telephone keypad. It appears there are no further question at this time. So, I would like to turn the conference back to you for any additional or closing remarks.

**François-Charles Sirois:**

Well, thank you. Thank you to all. Thank you for taking the time for doing this call. And again, thank you for your questions also. I know there are sometimes a bit tough questions, but I just want to share with everybody that we are looking at all these points and working hard to fix that situation where there is. But I see a lot of potential again. And as we can see in this quarter, we have been having revenue growth in most products, and so again seven on our top ten customers. So, the company is going in the right direction on that side, very good efficiencies, and I look forward to sharing the results

of Q3. So, thank you very much to all and speak to you in the next quarter.

**Operator:**

Thank you. Ladies and gentlemen, this concludes this conference call. Thank you for your participation. You may now disconnect.