# S Mobility Limited

# Q1 FY12 Results conference Call

## August 9, 2011

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**Moderator** Ladies and gentlemen, good day and welcome to the Spice Mobility Q1 FY12 earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ravi Sathe from CDR India. Thank you and over to you sir.

**Ravi Sathe** Good afternoon everyone and thank you for joining us on S Mobility's Q1 FY2012 results conference call. We have with us the Chief Financial Officer of S Mobility Subramanian Murali. Before we begin I would like to add tat some the statements to be made in today's discussion may be forward looking in nature and a statement in this regard is available in the concall invite which we emailed to you earlier. We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session. I would now like to invite Mr. Subramanian Murali to make his opening remarks.

**Subramanian Murali** Thank you Ravi. Good afternoon everyone. A very warm welcome to everyone present and thank you for joining us on this conference call to discuss S Mobility's operating results for the quarter ending June 30th 2011.

Let me briefly take you to the strategic shift which the company is making. The highlight of the quarter under review is our plan to become a complete mobile internet player. Internally we call this a switch strategy. Switch basically means switch from being a device company to a mobile internet company. We believe mobile internet is clearly the next big wave and S Mobility's business model is very proficient to blend the powerful synergy of VAS devices and retail.

To bring revolutionary and innovative operands to the consumers, mobile internet in terms of business as we know has immense potential. According to a Mckinsey report, it is estimated that India will have 1.2 billion mobile subscribers exceeding the total subscriber count in China by 2013. The demand for internet content is growing at a rapid pace across the countries, primarily on account of the growing demand from the youth. Our population of less than 14 years of age stands at 370 million which is one and half times that of China. The Mckinsey report states that by 2015, India will have 360 million potential mobile internet users. The entry of 3G has given us several opportunities especially in the data centric space and the VAS arena. We believe that an entity which is capable of bundling offerings is optimally placed to leverage on changing trends, as our Company is perfectly well positioned to do the same.

Another factor that drives our business is our increased penetration in the rural segment. As the purchasing power of our rural consumer increases backed by the increase in income levels, the demands for better feature rich phones in rural areas is also increasing. The continued urbanization of tier 2 and tier 3 towns has created untapped markets for mobile internet and telecom opportunities that the Company is poised to capture. During the quarter under review, we have re worked our distribution strategies and are in the process of re working these strategies implementing the concept of clusters, which is dividing India into 7 clusters. So as to enable improved reach, better time to market and an improved level of service along capturing the market share at each cluster.

Now let me quickly take you through the results of the quarter ended June 30th, for each of the businesses. The total handsets sale for the quarter amounted to 2.2 million units which represented a growth of 22% in volumes compared to 1.8 million units in the corresponding quarter last year. With respect to the Spice branded handsets, the volume growth of 1.3 million in Q1 FY10-11 increased to 1.5 million in the current quarter. On the back of increasing popularity of smart phones we launched a whole range of Android based phones. We were also the first to introduce the first dual sim android phones in India namely MI270. We continue to assemble handsets in our Baddi manufacturing plant which has a manufacturing capacity of 4 lakh phones per month. Earnings after tax improved from 3 Crore in Q1 FY10 to 17.4 Crore in Q1 FY11-12. We have been talking about ASP trends which have been declining in the last 3-4 quarters. We are happy to announce that this trend is now reversing, as the ASPs have increased by Rs 100 during the quarter. Our strategy has enabled us in building organizations as I mentioned earlier, in 7 clusters within India which has aided us to increase local market share across the country. Towards this we are under the process of increasing the field force at the ground level and also increasing reach of Spice branded Spice products. This will enable the Company to acquire counters selling  a higher market share in the long run. We hope to see results ofour investments over the next 3-4 quarters.

On the retail side, our retail presence continues to grow. The number of Spice hot spot stores across the country stands at 792 stores across 159 cities compared to 735 stores last year. There has been a 20% revenue growth in retail in Q1 FY2012 compared to Q1 FY2011 last year as retail business has now turned EBITDA positive during the quarter as compared to a loss of 13 Crore last quarter. This is primarily on account of same store growth and the increase in Spice handset shares within our retail chain which is now at a healthy 14% in terms of value share. The effort which we have been making under the retail side in terms of trying to open a new store, gain or reach market presence is finally paying off. Our focus going forward in retail continues to pursue the opening of new stores and investing further to increase our presence and reach in major metros. We will also be focusing on gaining market share in each of the cities, which we are present in.

On the value added services side, we have expanded our VAS offering with introductions that include live Arti, live FM, USB based Mbanking solutions, etc. Our revenue grew 29 % to Rs.60 Crore during the quarter under review. We have a healthy EBITDA margin of 21% and a PAT margin of 16% for the value added service business. Over the last 4-6 quarters the margins in the the industry continue to remain under pressure. This is largely due to the increase in the cost of operations, content, and the reduction in revenue shares. Our strategy here is to not only expand in India but expand globally, in places like Africa, and Middle East. Our entry into Africa has been very encouraging so far and we are currently present in 5 different countries. We now have strategic tie ups with almost all key operators in these countries as we are also eagerly looking at  M&A opportunities in this space. Some of our unique offerings like creating a destination for our content have added more value to our phones. Our application portal has witnessed some significant increase in paged views, visit units and visitors. We strategize on growing through offering content such as games, gallery, font, wallpapers etc. it is like a one stop destination point to download a variety of contents. This portal currently scores 17 million pages view per month and is growing at a very rapid space.

Overall on a consolidated level, our revenues grew by 9.6% in the last quarter to Rs. 526 crores, compared to the corresponding quarter last year as EBITDA grew by 30% and stood at Rs 35 Crore. While PAT increased by 35% to 25.9 Crore this quarter. Our debt free balance sheet is extremely robust with a net worth of 845 Crore and cash equivalent of Rs.310 Crore as on 30th June 2011. This I believe gives us ample scope to leverage on both inorganic and organic growth opportunities. This is the end of my initial comments. Now I will be glad to take your suggestions and answer any questions that you would like to discuss. Thank you very much.

**Moderator** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nikunj Doshi from Bay Capital, please go ahead.

**Nikunj Doshi** Just wanted to understand this VAS business, can you give me a split of revenue as to what application is giving those kind of revenues?

**Subramanian Murali** Predominantly, there are 3 kinds of services. One is mobile radio which is a music based service and then we have social networking services and the 3G services which we launched just a couple of quarters back, which include live Ariti, live FM, etc. These 3 services will contribute to 65%-70% of the total revenue for VAS.

**Nikunj Doshi** Okay and of this M radio would be the largest?

**Subramanian Murali** Yes that is right.

**Nikunj Doshi** Okay and on acquisition front, any thoughts on what we are targeting in terms of integration?

**Subramanian Murali** As I mentioned to you earlier, we are looking at M&A opportunities predominantly outside India. The VAS business can be divided into 3 categories which are categorized into operator VAS, device VAS and consumer VAS. While we were predominantly focusing on operator VAS, we are also looking at augmenting device VAS as we are currently selling close to 7 million handsets a year. Through the Spice group acquisition outside India we have another 7 million handsets that will be sold next year. We have close to 15-20 million handsets of S brands that will be sold across the I-2-I region which includes regions that span across Indonesia to Ivory Coast. We are looking at focusing on device VAS businesses. For example, we will start embedding content into these 15 million handsets. So with regards to what has been stated previously, we are looking at interesting acquisition opportunities of small companies who have forayed in device VAS and operator VAS businesses. M&A opportunities outside India include companies in Middle East and Africa as there is a huge difference in valuations abroad. We are looking at entering these geographies through acquisitions as well. There are interesting companies who have specific mobile services such as mobile banking, mobile education and mobile health. So we will be looking at areas of these opportunities to be able to leverage on the strength we have in terms of the 15-20 million handsets that we sell every year across i2i.

**Nikunj Doshi** In terms of retail, what kind of Spice store additions are you looking at?

**Subramanian Murali** I won't be able to give you an exact figure, but we would have close to 500 stores more within the next 15 months. As we have good market shares in Delhi and Bangalore. Our objective is to gain market share in the cities we are present in. We will pick 3 more cities other than Delhi and Bangalore, to focus there. We are not going to be present across the country in all the cities, but we will be present in top 20 cities in the country where we will increase our reach and store count.

**Nikunj Doshi** And in terms of the break even at a store level, usually how much time does it take for a new store to break even now in the current environment?

**Subramanian Murali** The new store takes anywhere between 6-9 months to break even. For an owned store where we put in investment and then we run it ourselves. This is a large format store which typically takes 6-9 months to break even but if it is a franchise model, it takes 3-6 months to break even.

**Nikunj Doshi** Spice was planning to introduce other products through Hot Spot stores, have we started selling other products also besides mobiles?

**Subramanian Murali** We are not planning to introduce anything other than mobility products. We are already selling mobiles and accessories in some stores. In large format stores, we sell laptops and net books also. Beyond that we are not planning to add any other products to our product mix. We are only looking at, increasing our accessories. There are plenty of accessories available abroad. So we import them and sell them in India. We don't intend to get into other products at the moment. It will all be based on mobile, mobile internet and now IT is almost merging with mobiles, so it could be IT related products but not PCs and laptops. We will not be selling laptops across all the stores. That's not our focus area.

**Nikunj Doshi** Okay thanks and all the best.

**Moderator** Thank you. The nest question is from the line of Nayan Mehta from 21st Century Shares, please go ahead.

**Nayan Mehta** Yeah my question is we have about 25 million subscribers as of now and this quarter you added about 2.2, I just want to know what kind of growth do we envisage and what kind of run rate we may have in the year after this?

**Subramanian Murali** We are definitely looking at a growth of 25-30% year on year. Last year, we sold about 5.5 - 6 million handsets. So we would be looking at a 25% growth every year.

**Nayan Mehta** But do you see any major migration happening in your favor from existing service providers to this mobile internet?

**Subramanian Murali** Yes. If you look at mobile internet products, apart from android handsets, Blackberry and Apple brands like Spice who are launching differentiated products at a comparatively cost effective range, compared to Blackberry, Apple and Google, we will definitely see some migrations. If you have seen the market, Nokia has already lost out on the smart phone category. They have lost leadership to Apple and Samsung. So we will be definitely target at acquiring shares from Nokia, Samsung and Blackberry in this space. The mobile internet category growth is what we will witness over the next 3-4 years time rather than immediately. Our strategy will be effective over the next 3-4 years when mobile internet will be more dominant. And we are quite sure that we will gain a significant market share under mobile internet space which will be derived from the players I mentioned earlier.

**Nayan Mehta** Out of the 2.2 million handsets that you have sold in Q1 and out of that about 1.3 million is Spice branded, what is the difference in pricing and the margins in this category of handsets?

**Subramanian Murali** Difference between Spice branded and other brands?

**Nayan Mehta** Yes.

**Subramanian Murali** We earn a margin of 20-25% for Spice branded handsets because we source it directly from China, from the manufacturers. As far as other brands are concerned, it is basically the Nokias, Samsungs and other brand handsets which contribute to revenues at the retail stores. There the average margin as far as retail is concerned, is about 10-11% margins at the store level.

**Nayan Mehta** What I see from your balance sheet, you are a debt free and a Company with light assets. Spice is a Rs 2000 Crore plus company in FY11 and asset size stands at about Rs 1200 Crore. So being a zero debt company and a high asset turnover, how are return ratios that subdued as we don't even have attractive ROEs or ROIs. The second concern is our EBITDA margins are low at around 7%.

**Subramanian Murali** You are looking at consolidated results right?

**Nayan Mehta** Yes.

**Subramanian Murali** S - Mobility has 3 businesses, Spice branded Devices, where we have our own Spice branded devices which are manufactured and sold in India. The other two businesses are retail and VAS. Each business has its own model in terms of assets as well as return on investment. In terms of our Retail business, we achieved an EBITDA positive in the current quarter. So obviously retail has been dragging on ROCE and EBITDA. When you look at all the three businesses together, then you see that the EBITDA margin is only 5% or 6% but when you analyze the business individually, then we will be able to judge the scenario better. The Retail business has been running for the last 5 years and now this is the quarter in which it has actually turned EBITDA positive. Individuals who follow the retail industry will realize that retail at the regional level is more profitable rather than retail at a national level. If you see us over the next 3 years, after retail turns EBITDA positive and goes on to make a 5% EBITDA margin over the next 3-4 years, then EBITDA percentages will change significantly. Secondly we are making huge investments in device and increasing our reach and penetration to increase our sales force in the region which is an immediate drag on EBITDA but that's going to result in gaining a higher market share over a period of time. We are not in this business for a short term gain; we are here for a long term. Thirdly, for the VAS business on a standalone basis, ROI and ROCE is very high. That's because the inherent margins in that business is high as compared to the capital which has been deployed. When you combine all three, then EBITDA margins stand at 5% - 6% These figures can grow over a period of time to a significant figure.

**Nayan Mehta** Is it possible to give some kind of color on the EBITDA margins and the different services we just talked about, may be not for the current year but may be going forward?

**Subramanian Murali** I mentioned about the EBITDA margins in the VAS business which is currently at around 20-22%. I don't see a major change in this. We will be able to maintain this kind of margins provided we are successful in implementing our strategy outside India. As I mentioned during the beginning of the call, the margins in India in terms of VAS services are decreasing. That is why we are looking at opportunities abroad, further expanding into device and VAS businesses. On the retail side already mentioned before, we are EBITDA positive. There is a good potential for us to come close to 5% EBITDA level in 3 years' time because if you look at regions outside India, like China, a very successful retail company can get a 5% EBITDA margin and that is our goal. On the handsets side, initially as I previously mentioned, we are looking at investments in manpower and distribution channels but if you look at the last 2 years, in March 2010, our EBITDA was almost 9-10% for the devices. So, it's not impossible to get an EBITDA of 9-10% on the device side. But it will happen over a period of time once we are over the investment stage.

**Nayan Mehta** It takes about 6-9 months to break even for a new store, and you already have a total of 792 stores. How many out of these have broken even and how many have not?

**Subramanian Murali** 85-90% of stores are already making money at the store level. The only stores which we had opened in the last 6 months to 1 year's time could be still bleeding at a store level. Some of the stores we keep closing because 5% of the stores that we have opened turn out to be at wrong locations as we do not get enough revenues as what we estimate, so we keep closing those stores. So on an overall basis 85% of the stores will be making money and 15% will be a drag on the EBITDA as of now.

**Nayan Mehta** Okay and what is the total CapEx for current year as well as next year if you can just give us the breakup of that?

**Subramanian Murali** We are looking at opening 500 stores hypothetically in the next 15 months and in the current financial year, we will be spending close to 30-35 Crore on store openings itself. That's the kind of capital investment we are looking at in retail. Investments for devices and VAS will be mainly oriented at devices as we are looking at expanding our manufacturing capacity in Baddi and also increasing our distribution network in the country.

**Nayan Mehta** How much did you say you will be spending in devices?

**Subramanian Murali** For VAS, we invest about 20-30 Crore every year on building capacity because, when we launch new services, we deploy servers and infrastructure of our retail services and centralized norms. This is without considering inorganic growth opportunity because our major investments are only utilized during certain acquisitions.

**Nayan Mehta** Thanks for taking my questions.

**Moderator** The next question is from the line of Srinivas Rao form Deutche Bank, please go ahead.

**Srinivas Rao** Thank you very much Mr. Subramanium, I have 2-3 questions. First is if I look at your revenue breakdown, handset would be what part of the revenue share broadly, handset sales which you have given, is it the entire handset sales?

**Subramanian Murali** Our device Business that has contributed 466 Crore, includes the total handset sales.

**Srinivas Rao** But that includes both your Spice branded and the third party?

**Subramanian Murali** That's right.

**Srinivas Rao** Essentially, what I want to understand is that at this stage your revenue is largely handset sales driven. The reason why I ask this is while you have mentioned that you see mobile internet as a very good opportunity, globally there are very few examples or probably none barring an Apple structure which is a completely different business model having managed to actually bring revenues via mobile internet. Do you think it will be feasible for you to do that? I know you are investing in an App model but given that there are apps on operator portals which are already available and then you have the Android market place which also has its own app portal. How successful can your strategy actually be?

**Subramanian Murali** When I say mobile internet, if you really look at the presentation which has been sent to you, on Page #4 of the presentation, the internet population which will access it via mobiles will grow significantly over the next five years and that is what the research says. More than 360 million mobile internet users will exist by 2015. 80% of internet will be accessed via mobiles. With respect to our strategy, when I mention mobile internet, it does not mean our revenue will completely change to 80% from VAS and 20% from devices. What we indicate is that we will be selling devices which will enable the customer to access mobile internet, plus services which will be either embedded of accessible by the devices which will also help us with recurring revenue from the sales.. So devices will continue to be our point of focus. So that is why if you see the change which will happen over the next three to four years, the percentage of smartphone sales are expected to increase to 45% from the current level of 15-20%. If we are not in that space, then there will be no growth for the mobile devices business. Our business will be device driven but we will have services that will be compatible with our devices which will also include our app portal, push email and other services.

**Srinivas Rao** I have 2 more questions if you permit, one is on your ASP which increased this quarter, Is it related to the change in mix or is it because you have managed to make some price increase?

**Subramanian Murali** No, there hasn't been any price increase. This industry cannot have price increases. It will continue to decrease in terms of the price. It is like a PC industry at some point of time that will continue to get a higher value for the same price in terms of higher memory, higher features, etc. But what we have done is that we have been able to introduce differentiated products at different price points. The way we operate is that we divide categories into Rs. 0 to Rs. 2000, Rs.2000 to Rs.4000, Rs.4000 to Rs.6000, and above Rs.6000 brackets. So our objective is to negotiate with the vendors in terms of the products that they have. We are consciously looking at products which are going to be differentiated products in the category of Rs.4,000 – Rs.6,000, greater than Rs.6,000 and in Rs.2,000 – Rs.4,000 brackets, as the market for 0-Rs.2,000 bracket is very competitive. We understand that we have to be present in these categories but we will not be able to make too much money here, our strategy will be related to the mobile internet again. We will go on to achieve sales from categories greater than Rs. 2000 and Rs. 4000. We are shifting our focus from Rs. 0- Rs.2000 bracket to Rs. 2000 – Rs.4000, and Rs. 6000 or greater. This is the prime reason that has led to higher ASPs. I previously mentioned about the acquisition which the Spice Group made in Malaysia, Indonesia, and Thailand in the Devices business which has been done by our fellow subsidiary in Singapore. With this, we will achieve a scale advantage giving us the ability to associate with chip set manufacturers, design houses, vendors or Google. With this we will be able to get better products at better prices, hence become successful in the market. This strategy will help us increase the ASP and also increase its market share. We will be able to leverage the opportunity what we have outside India, into India and through that we will be able to increase the ASP and market share.

**Srinivas Rao** And Sir finally just wanted to check with you, as you mentioned during your opening remark that your handset margins are 22%, did I hear it right and is that the gross margin?

**Subramanian Murali** That's right. It is the gross margin.

**Srinivas Rao** Okay sir, fine. Thank you. This is helpful.

**Moderator** The next question is from the line of Rajat Gupta from JP Morgan, please go ahead.

**Rajat Gupta** Hi. Thanks for taking my question. I just have one question on the broader market in general. According to you what do you think is going to be the next big catalyst to drive 3G uptick in India in terms of cheaper dual sim phones or smart phones, when do you see that coming?

**Subramanian Murali** That trend is already evident. If I go with the experience of our retail chain, 50% of our sale within our retail is contributed by smartphones and we see that smartphone sales have gone up only in the last couple of quarter and according to our estimate, more than 45% of the phones by 2015 will be Smartphones in India. That is going to definitely leverage 3G networks, and secondly, there is an opportunity for Smartphones, as their ASPs range from Rs. 10,000 to Rs. 20,000. MTK who is the largest chip manufacturer in the world, with more than 600 million chipsets in a year, we are able to offer the same features of a smartphone, in an affordable feature phone. This makes it a smart like phone. So with smart like phones will be available to the end-user at the price of Rs. 4000 to Rs. 10,000. Users for Rs. 4000 will be able to do whatever a Smartphone does. This is going to again drive 3G penetration in India. Brands like us who are introducing this phone are going to help drive mobile internet growth and 3G growth**.**

**Rajat Gupta** What do you think of the price levels which the operators are offering? Do you think that needs to come down a little more or do you think they are at right levels at the moment?

**Subramanian Murali** Are you talking about 3G services?

**Rajat Gupta** Yes.

**Subramanian Murali** I don't think 3G services have really taken off. From whatever I understand from the operators I don't think there is going to be any reduction in the 3G service price levels as I see it, but personally if you ask me about the rates I think there is an opportunity for it to go down, which should help increase the penetration. I think the operators are struggling with the investments that have been made.

**Rajat Gupta** Okay thanks a lot

**Moderator** Thank you. The next question is from the line of Nihal Shah from Enam Holdings, please go ahead

**Nihal Shah** My first question is in regards to the MediaTek investment in to your VAS subsidiary of $20 million. Just wanted to understand what stake did they buy? What is the residual value that the parent company now owns in the VAS subsidiary and also given the fact that we have so much cash lying on our balance sheets, why did we go for an external investment?

**Subramanian Murali** See let me clarify. The MediaTek investment is not a primary sale but a secondary sale. Firstly, if you look at Spice Mobility, Spice had 80.58% of Spice Digital at the time of merger and the balance was held by the parent Company of Spice Mobility. MediaTek investments happened through that route. Secondly, the MediaTek as I explained to you sometime back produces 600 million chipsets a year, they are the largest manufacturers of chip sets in the world and we are trying to work out an arrangement with them, trying to get into the device VAS business. We will be able to take a lead in embedding content and embedding services on all the media chip sets. To start with, we will start with Spice phones and then over a period of time, expand into the MediaTek base itself. So that is our prime objective.

**Nihal Shah** Okay my second question is again related to VAS. Basically this 20 million is for the 17% stake that the parent company owns. Is that correct?

**Subramanian Murali** 10% stake.

**Nihal Shah** Okay. My second question is again on VAS. We are hearing a lot about the TRAI rule changes in terms of written communication with the subscribers and also in terms of bringing VAS revenues, within the license regime. Can you throw some light on where you all are in this discussion with TRAI and what's your outlook on these changes of the regulation?

**Subramanian Murali** License regime may be good for us. So far there have been a lot of issues as far as the TRAI regulation implementation is concerned and there are a lot of players in the VAS who we compete with. When you bring in some kind of regulation it is good for the long term players. As far as the TRAI regulation implementation in concerned, I mentioned in my opening remark that this was a reason for de-growth in revenue a couple of years ago for the entire VAS industry. It is not easy to implement guidelines, but we have implemented the earlier guidelines and we will implement the current guidelines which will be applicable from the current month onwards, 16 August 2011. We need to really wait and watch what impact it has on VAS. We always believed that it has got to be the usage driven model. For example if you look at embedded services, what we are running, applications like live Arti are based on 'usage' model. People use live Arti to watch Darshan in Tirupati. We charge based on per minute usage as that kind of a model will start becoming more attractive to users and VAS companies. Secondly, we will have opportunities outside India as we are looking at Africa and Middle East. So once we have developed the service and the product in India, we can implement it abroad as well. This is the opportunity which will open up for us.

**Nihal Shah** Can you give us a break down of what's your domestic and international revenues in the VAS businesses right now?

**Subramanian Murali** Currently in the last quarter, it could be about 10% outside India. Last year it was less than 5%. Now it has gone up about 10%. We expect it to go up significantly over the next 2-3 years close to 30-40% of our revenues.

**Nihal Shah** My last question is related to devices. Wanted to know the total number of Spice branded phones that you sold. The number stood at 1.5 million this quarter. How much of this was manufactured within Baddi and what is the kind of current capacity utilization of Baddi and the outlook on the proportion of phones that you see getting manufactured in Baddi going forward?

**Subramanian Murali** As I said, Baddi's manufacturing capacity is around 400,000 phones a month but then our current capacity utilization will be close to 30-35%. We can only manufacture low-end phones because there has to be some significant volumes for us to do that and going forward I don't see this going beyond 50% of the capacity.

So we may at some point of time, increase it because we are also looking at working with various vendors at different price levels from ranges of Rs. 4000 to Rs. 6000, and Rs. 2000 to Rs. 4000 brackets. We will have an arrangement with each vendor because when we negotiate with the new vendor, we need to have not only CBU prices but also work with SKD strategies. It is not easy and will not happen overnight but we can actually gear up to manufacture 0.5 million phones per month as and when we need to. It is not a challenge.

**Nihal Shah** You were looking at expanding the capacity in the past. Is that plan put on hold currently?

**Subramanian Murali** Like I said, we can expand anytime we want to, but currently we want to utilize 60-70% of the existing capacity before we can look at expanding. It would be pointless to expand capacity and then not utilize it. If we want to expand, we can expand in 3 months to more than 800,000 handsets per month.

**Nihal Shah** That's all from my side. Thank you so much.

**Moderator** As we have no further questions I would like to hand the floor back to Mr. Murali Subramanium for closing comments, please go ahead.

**Subramanian Murali** Thank you for participating in this conference call and it has been pleasure answering all your questions. And if you have any specific queries then you can always be in touch with CDR or Ravi and Nitin who can be in touch with me for any clarifications. Thank you very much.

**Moderator** Thank you. Ladies and gentlemen, on behalf of Spice Mobility that concludes this conference call. Thank you for joining us and you may now disconnect your lines.