OnMobile Global Limited

Third Quarter FY2014
Earnings Conference Call

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Speakers: Mr. Tony Haight, Chairman
Mr. Mouli Raman, Managing Director & CEO
Mr. Rajesh Kunnath, Global Group CFO
Mr. Sanjay Bhambri, Chief Commercial Officer

Moderator: Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Q3 FY2014 Earnings Conference Call for OnMobile Global Limited. For the duration of the call, all participants' lines will be in 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. Tony Haight, Chairman; Mr. Mouli Raman, Managing Director and CEO; Mr. Rajesh Kunnath, Global Group CFO and Mr. Sanjay Bhambri, Chief Commercial Officer.

Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the Earnings Presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future, likely events or circumstances. Now, I would like to hand over the proceedings to Mr. Tony Haight. Thank you and over to you, sir.

Tony Haight: Thank you. Welcome to this investor conference call. We are going to follow the same procedures as we have done in the past. I will ask Mouli to start with providing the business overview followed by Rajesh on financials. Over to you, Mouli.

Mouli Raman: Good morning, everybody. Thanks for joining us. This is Mouli here. This is the second quarter of results after acquiring LiveWire i.e. the OLI business, so we have given the results including OLI and excluding OLI to give you a comparable analysis.

To begin with, Q3 FY2014 was a challenging quarter for us. It was challenging because we had softness in revenues in some areas coupled with one-time expenses. We were able to partly offset the impact of this by our ongoing cost optimization initiatives. Overall, excluding OLI, our revenues increased by 16% year-on-year, but declined by 1.2% quarter-on-quarter. Operating profit increased from Rs. 5.1 crores to Rs. 5.9 crores quarter-on-quarter.

Including OLI, revenue was relatively flat compared to the last quarter and the Operating Loss increased from Rs. 2.5 to Rs. 4.8 crores. Getting into more details, on the international business – including OLI, our revenues grew 53.1% year-on-year but declined by 0.7% quarter-on-quarter. International business constituted 77% of the consolidated revenues during the quarter.

Now, getting into more details by geographies – in Latin America, revenues grew by 14.6% year-on-year, but declined 10.6% quarter-on-quarter. This decrease is because of two reasons - one, there were some network issues on the operator side, due to which, all marketing initiatives were stopped across all the services, i.e. both core and value-added services and this lasted for about six weeks in the early part of Q3. These issues have been resolved now and we are back to normal, but this definitely had an impact on our revenues during this quarter.

Regarding the second reason for the impact, as you know, we have been present in Latin America for the last about 2 – 2.5 years now. In our contract, we had structured the deal in such a way that there was to be a revision in revenue share based on reaching a volume threshold. We crossed that volume threshold and that had an impact in this quarter. Going forward, we expect to continue to see growth in Latin America.

Now, moving on to Other Emerging Markets, revenues grew by 4.3% year-on-year and declined by 7.6% quarter-on-quarter. I would like to point out one specific geography i.e. Bangladesh where we had some softness owing to the ongoing political situation there. Also, we launched RBT services with another operator in the country. Further, we signed a contract with a very large operator there for rolling out RBT services. So with this, we will have an even more dominant play in Bangladesh. Based on the trends that we are seeing in Other Emerging Markets, we should start seeing the growth again starting this quarter.

Moving on to Europe, we are continuing to see robust growth with revenues increasing over 128% year-on-year and 9.7% quarter-on-quarter. This has been predominantly driven by the CVAS offerings. On the cost side, we had a one-time impact of Rs. 144 million this quarter, which is about 7% of overall revenues for the quarter. So just to give you a background on that, as an entry strategy for a large operator in Europe, we had signed a deal couple of years back with a minimum guarantee. We have done minimum guarantee deals only selectively. The services for the operator went live a few months back. Due to some delays in deployment as well as due to the economic situation in that country, the revenues were not as much as we expected and hence we re-negotiated with the operator to reflect these challenges. As a result of this negotiation, while we have a one-time impact this quarter, we believe that we should be able to make this up over the period of the contract, which is about four years. So this is about Europe. As far as OLI, that is the erstwhile LiveWire business is concerned, we are in the final stages of integration and migration of the systems. I had mentioned last time that there were some delays in migration and because of that, our revenues this quarter were as not much as we had planned. However, on the margin side, we are not affected as much. We had mentioned that we will have an impact of around 500 thousand USD at the EBITDA level for three to four quarters. And if you look at this quarter, EBITDA burn was marginally higher at 0.7 million USD due to separation cost of about 0.2 million USD. We have been aggressively working on Opex optimization, which is on track.

Now, coming to India, revenue declined 17.1% year-on-year, but grew 3.2% quarter-on-quarter. After a long period of decline, we did see some stability in India, so that is good news for us.

Moving on to the revenues on the product side, I will briefly touch upon two things - One is about football. We had launched football last year in Africa. After launching the service, we did a fairly detailed study of the African market for football. We had an insight of how people in Africa use football, i.e. we realized that people basically follow clubs and not football. So based on that the feedback, we re-packaged the product and re-launched it. After re-launching the product last year, we have seen significant growth in this product. We have got a base of about 3.2 million users as of now. We have seen a growth of about 50% in the user base and revenues from last quarter. We are also seeing good traction for this product with other operators.

The second one is about Mobile Health. As you know, we have been working with BBC on Ananya Project for some time now. This project is aimed at improving maternal and child health in India. We had launched this in Bihar and saw very good traction. The government has given a go-ahead to all the states to roll this out. BBC and Bill Gates Foundation are in touch with the states and we should see the roll out of this project in most states during the course of the year.

With that, I will hand the proceedings over to Rajesh to take us through the financial highlights.

Rajesh Kunnath: Hello and good morning, everybody. Taking over from where Mouli left, the quarter has been challenging from the standpoint of having to contend with revenue softness and the impact of Minimum Guarantee (MG) for an operator contract in Europe. What has been heartening is that we have been able to control costs, both manpower and operating expenses, to ensure that we did not have a hard landing. As far as the MG is concerned, as already touched upon by Mouli, we should be looking at the impact more as an investment for generating new business opportunities in Europe. It's not typical for us to enter into such deals as we have always been running the standard revenue share model in most geographies for RBT services. We believe that this one-time settlement with the operator for 2013-2014 fiscal, which has been absorbed in the Q3 numbers, will augur well for the future and give us returns in the years to come. It is a four-year deal and we are in the year one, so we still have time to catch-up and recoup this impact.

Coming to the margins, EBITDA normalized for the MG impact would have been 23.5% for the quarter, which is the desired level for our consolidated operations. Forex loss for the quarter, primarily restatement-linked, was Rs. 57 million as against Rs. 89 million gain in Q2. For these reasons, Normalized Net Profit, excluding OLI, improved vis-à-vis the previous quarter. We were able to save on Manpower Cost based on rationalization efforts initiated in the previous quarters. There were one-off separation costs to the tune of Rs. 12 million in the reported number. Headcount, excluding OLI, as of 31st December, stood at 1,638 vis-à-vis 1,637 as of 30th September, 2013. On a consolidated basis, headcount was flat at 1,721 at the end of both quarters.

As far as the operating expenses are concerned, Travel, Conveyance and Legal & Professional charges reduced during the quarter. We made good progress on collecting part of an overdue outstanding from an operator in South-East Asia, which enabled reversal of part of the provision created in the past. We have reason to believe that we will make some more progress on this front in the coming quarter as well.

ETR i.e. the Effective Tax Rate, for the quarter was 26%, which indicates significant progress vis-à-vis the run-rate of past quarters. As far as the Balance Sheet is concerned, we have made significant progress in pruning our Receivables. Overall DSO reduced from 177 days to 137 days. This resulted in the Net Cash position improving as of 31st December, 2013. As a result of the strong cash position, we've been able to square-up some of our Short-term Borrowings. We believe that our overall DSO can be improved further to release some more cash in Q4. As far as OLI is concerned, Opex optimization measures are on track. We now open up for questions.

Moderator: Thank you so much, sir. With this, we are going to start the Q&A interactive session. So I would request all the attendees and the participants to press "0" and "1" on your telephone keypad and wait for your name to be announced, if you wish to ask any question. So we have the first question from Mr. Raj Mohan, he is an individual investor. Your line is unmuted. You may go ahead and ask your question, please.

Raj Mohan: Yes, thanks for taking my call. I had a few questions. First is on Latam. You have indicated that Latam was impacted by technical issues, could you elaborate on that from the angle of recurrence of such issues? And had this not occurred, would the revenues have been, say, around Rs. 60 crores for this quarter? Second is, are we still seeing 10% quarter-on-quarter growth in this Latam market at current levels of penetration? The next is, how much has the revenue share come down in Latam? Has it played out in all major markets like Brazil et cetera? If not, could you elaborate on what percentage of Latam is yet to come under reduced revenue shares?

Next is on OnMobile Live. You have indicated that you are in the final stages of migration and integration and your quarterly revenue run-rate has dropped from around 5 million USD pre-acquisition to 3.5 million USD now. And after being involved in the process of migration and integration over two quarters, what is the current estimate on returning to this 5 million USD run-rate? Then, based on your interaction with major customers in North America at a closer level and observing market evolution, are we still sticking to break-even target of June 2014? And have you done any internal assessment on growth rates that you hope to achieve in FY15 and FY16? Finally on cost, on the one-time impact of minimum guarantee of Rs. 14.5 crores, under which expense head has that been clubbed? And what is the revenue potential in this contract over the five-year period?

Next, you did indicate the costs have been controlled in this quarter, but then, I was surprised to see the employee costs continue to remain at Rs. 92 crores, whereas it was indicated in the last quarter that you would come down to Rs. 75 crores. Thank you.

Mouli Raman: So I will take the first question about Latin America. The issue was network-related which the operator had never experienced before. This was because of the new network roll out they have done. Hence, we believe that this is unlikely to recur. The second thing is that, the impact on the revenue share is about 10% of the overall revenue shares that we have, based on the volume of business, as per the contract. And we expect the growth to continue from where we are today, definitely yes. We expect the growth to be in the single digits quarter-on-quarter for Latin America for the next year. I will now hand it over to Rajesh to answer the next question.

Rajesh Kunnath: There were two questions that you had asked, specific to the financials. One was regarding the line-item under which the the Rs. 14.4 crores of MG has been booked. It is booked under the head Other Sales and Services cost. The next question was about Manpower Cost. Manpower cost, if you look at the number excluding OLI, it is the metric that we spoke of in previous quarters it will show a reducing trend. The Manpower Cost has reduced from Rs. 831 million in Q2 FY14 to Rs. 812 million in the quarter. And directionally, we believe it would end up heading further southwards to the region of Rs. 77 to 78 crores in the coming quarters, based on the rationalization efforts that we have taken. So Manpower Cost is reducing , and that's the trend. That is as far as the Manpower Cost is concerned. There was one question on OLI, which Mouli will take.

Mouli Raman: On OLI, you had asked that we had started with certain revenue number, so where are we at the current level. There are two things that have happened. One is that there have been some delays in migration which had an impact on the revenues. And also, some of the revenues drop is on low-margin business. If you look, while there has been drop in revenues, the margins have been about in the same band that we had originally said. So based on our interactions with the operators and the traction that we have seen in other geographies for the music product, our plan is to turn positive next year, on EBITDA level.

Rajesh Kunnath: Also, just want to complete the answer on Manpower Cost. The Manpower Cost for OLI was Rs. 80 million last quarter and Rs. 116 million in this quarter. Rs. 80 million was for a period of 73 days. So if you normalize that for a full quarter, it's about Rs. 98 million plus Rs. 12 million of separation cost, which I touched upon in my opening summary. This means that Manpower Cost is almost on par with what it was in Q2. So that way, Manpower Cost for the consolidated operations excluding OLI, is moving southwards.

Raj Mohan: So including OLI, would it be right to assume it will be around Rs. 85 odd crores per quarter?

Rajesh Kunnath: It's a little early to say how the exact number will pan out, but it would be lower than Rs. 90 crores for the quarter. That's the expectation.

Raj Mohan: Okay. Coming to the revenue potential which you didn't answer, I think, in the maze of questions. What is the revenue potential for this minimum guarantee contract over the next three years?

Sanjay Bhambri: The contract is for four years and over the four years, I think, we would be looking at upwards of 24 million EUR of the customer topline.

Raj Mohan: Okay. And the one final question which was unanswered was relating to the revenue share that has come down in Latam based on the volumes. Has it played in all geographies or are you still expecting more revenue share drop in the coming quarters?

Mouli Raman: I think, overall, the contract has been structured with various levels of volume. So the first break is what we reached this quarter. And based on the current plan, we may reach the next break sometime later next year.

Raj Mohan: Okay, thank you so much and all the best.

Mouli Raman: Thank you.

Moderator: Thank you Mr. Mohan. We have the next question from Ashi Anand from Kotak India. Your line is unmuted, you may go ahead and ask your question, please.

Ashi Anand: Sir, my questions have been answered. Thank you.

Moderator: Thank you so much, Mr. Anand. Before we move on to further questions, I would like to repeat - Attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. At this time, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. So we have the next question from Mr. Prakash Ramaseshan from Kotak Mahindra. Your line is unmuted, you may go ahead and ask your question, please.

Prakash Ramaseshan: Thank you for taking my question. I think there have been a lot of questions around the business side and we do understand, as long-term investors, that businesses can be impacted in a quarter here and there. We wish the management all the best and we see great efforts going on to improve the operating revenue possibilities of the company going forward in the operating cost structure. My questions actually are revolving around the same issues that I had raised over the past two or three calls. These are the emphasis on application and return of capital and the direction given by the Board or the management to us around those issues by giving us comfort that OLI-kind of large capital allocation will not happen again without some kind of discussions and consensus of the investors and the investor inputs will be taken into account. Perhaps, some issues around the structure of the Board, particularly in terms of independence of the Chairman because these are issues which I think, need to get addressed if the larger issue of the re-rating of OnMobile has to happen.

As long-term investors, we understand completely that there will difficult quarters and there will be good quarters and we have the patience to wait for the business to turn around. We believe in the quality of your management team and the quality of your business. But, we see from the capital markets and based on our discussions with lot of investors, there's a lot of nervousness around that is there going to be another OLI-kind of large acquisition without taking into the views of minority investors. So we need to see, as minority investors, that the capital of the company is allocated correctly. We have the patience to stay with you and we have the belief in you that you have a fantastic business. But we are seeing operational excellence getting impaired by certain strategic decisions, which is finally reflecting as no movement in share price. And frankly, depletion in share price has really hurt very badly for a lot of investors. So this is the only question I wish to ask. I will probably address this to Mr. Mouli and then let him redirect it to anybody within the team. Thank you, sir.

Mouli Raman: Yes, Tony will answer this question, Prakash.

Prakash Ramaseshan: Thank you, sir.

Tony Haight: So your question is multi-faceted. How are we going to make decisions to protect the shareholders going forward and I want to point out that there have been a number of changes in our structure. Basically, it's the addition of two new Directors, who are Independent Directors to the Board. They are very prominent individuals – Mr. Chandrasekhar was a prominent bureaucrat and Mr. Barry White, who was the Head of a major law firm in the United States and recently retired US Ambassador to Norway – highly experienced in the kinds of transactions that OnMobile has engaged and may engage in the future. So we've added considerable stature and power to the Independent Directors of the Board.

I think one of the issues that you've raised more than once was that what we are doing to improve the Return on Capital. One of the suggestions you've given in the past more than once was around what is the company doing about a possible buyback of shares. I will respond to that by saying that in our last call I told you, that we were and are seriously considering steps along these lines.

Prakash Ramaseshan: You need to have a process and a comfort to ensure that the Independent Directors take our views into account? And the second issue is that we need to have some broad mathematics or broad understanding of the strategy of allocating and returning capital. So returning capital need not necessarily mean buyback, it could be either buyback or dividend. That's a Board decision.

Tony Haight: Correct, and I will tell you as I told you before that the Board has discussed this proposition again, yesterday. There will be movement on this front within a very short-term period and by that, I expect something this quarter. When that is finalized, there will be an announcement in the press and it will be available to all shareholders.

Prakash Ramaseshan: Thank you so much.

Mouli Raman: Thanks Tony.

Moderator: Thank you, Mr. Prakash. We have the next question from Mr. Vivekanand from Philip Capital. Your line is unmuted, you may go ahead and ask your question, please.

Vivekanand: Hi, thank you for taking my call. Could you help me with the split of the DSO i.e. the days of sales outstanding for the unbilled revenue and the billed revenue? That's one. Number two, in terms of the minimum guarantee that we provided, did I hear the revenue potential correctly – 24 million dollars of cumulative revenue over a four-year period? That's number two. Also, could you give more insights on the tax rate? I can see that in the current quarter, we have seen some rationalization of taxes. So these are my three questions, thanks.

Rajesh Kunnath: The number that you heard, as far as the MG contract is concerned, was 24 million Euros for four years. As far as Unbilled Receivables are concerned, they have come down from Rs. 127.2 crores to Rs. 105.4 crores as of the end of the quarter. And the DSO on Unbilled Receivables have come down from 55 to 43 days. The tax rate for the quarter was 26%. As I have been mentioning in the past, we expect it to be in the region of 35 to 37%.

Mouli Raman: Just to add to what Rajesh said, the cumulative revenue potential for this contract i.e. 24 million Euros, is for the operator. And as far as our revenue share is concerned, it will be in the range of about 7 to 8 million Euros.

Vivekanand: Okay, one more question on the revenue share. You mentioned something about step-wise change in the contracts, could you elaborate on that and could you explain about what happened in Latam with respect to this?

Mouli Raman: Overall, it is based on the volume of business that we generate for the operator. And at different levels of volumes, there is a step-down in the revenue share. And the first step down was triggered in this quarter.

Vivekanand: Okay, so in Latam, what is our revenue share now and what was it earlier?

Mouli Raman: I cannot give the specific numbers, but what I can say is that this revision impacted our revenue share by about 10%.

Rajesh Kunnath: Just to help you understand how this revenue run-rate will pan out in the near term, the quarterly revenue growth run-rate for Latam over the last four to five quarters has been about 7 to 8%. We have to note that we are well into the main part of the contract. After factoring the lower revenue share in one geography and also the levels of penetration that we have achieved in most of the geographies, we expect the quarterly growth run-rate going forward to be in the region of 2.5 to 3% q-on-q as against the 7 to 8% that we witnessed in the past. So that is how we would look at it from a very specific number standpoint.

Vivekanand: Okay, and would there be a risk of this step-down happening in other markets as well? Should we watch out for it?

Rajesh Kunnath: We do not see these trends of this magnitude in other markets though we do have similar contracts in other geographies.

Mouli Raman: So we are just calling this out because of the large size of a single contract. And we do have some volume-based discounts with operators in some places, but it does not affect the results materially.

Vivekanand: Okay, understood. Thanks.

Moderator: Thank you so much. Before we move on to the next question, I would like to repeat – Attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad, please. We have the next question from Mr. Sanjay Parekh from Reliance Mutual Fund. Your line is unmuted, you may go ahead and ask your questions.

Sanjay Parekh: Yes, good morning friends and thanks for giving the roadmap on capital allocations to buyback with the timeline that this is going to happen within the quarter. That was helpful. I think the second positive was the release of Working Capital from Rs. 35 to 80 crores. So a question on that was that can we say that we will not have further stretch on Working Capital and this would be the way which will keep improving our Working Capital?

Rajesh Kunnath: Sanjay, there was a bit of catching up to do because our Receivables had piled up for the reasons that we had explained during the last quarter. As I touched upon when I gave my introductory summary, we see some more scope in pruning the Receivables down, possibly to another 10 to 12 days, at best. So broadly we do not see any further strain on the Working Capital as long as we are able to keep our DSO in the 125 to 135 range . I would put it that way. As long as we keep a very close watch on DSO, we should not see increasing working capital .

Sanjay Parekh: Okay. And, secondly, in terms of profitability, once we add this Rs. 14.4 crores which was a business cost, but a non-recurring cost, you rightly mentioned that the margins would be 23.5%. So can we say that this would be the base for us from here? And I am saying some volatility is okay, but if we were to build for next year, will that be the base on which we should build for next year?

Rajesh Kunnath: This is the desired level of the EBITDA margins. We have been witnessing one-off items impacting our margins in the last few quarters. If you see the last quarter, we did have high Legal & Professional charges relating to the acquisition impacting margins. In the previous year, in one or two quarters, we also had the Forex loss being reported above the EBITDA line resulting in the EBITDA margins getting impacted in a different way. So the last three to four quarters have seen us getting impacted by one or two such one-off items. But if you exclude them, 22 to 23% is what we think is the current EBITDA run-rate and that is what we would like to achieve. We believe that all the cost-saving actions that we have initiated – some of which flowed into this quarter and some of which would flow into the coming quarters as well, should see us at those levels of margin.

Sanjay Parekh: Okay and I just missed the OLI part, can you repeat? We have a run-rate of 3.5 million USD, so do we plan to scale up that to 5 million USD next year? Secondly, this break-even that we are talking about, is it an EBITDA break-even? And in that case, would we have a drag on PAT because there is an element of the depreciation there? So if you can broadly guide how would 2014 or 2015 look for OLI, that will help.

Mouli Raman: Sanjay, there are two things. So one is, yes, while the revenues have come down from where we were a couple of quarters back, we did not have so much impact on the margin side. That way, whatever has gone out is mostly which did not generate margins. Going forward, we plan to grow the business to levels where our margins are better than what they were before.

Rajesh Kunnath: As far as your observation on the break-even is concerned, yes, the target is to get to break-even at the EBITDA level. We will have the non-cash element of the amortization of Goodwill and Intangibles that we will be incurring, which will have to be taken into consideration not just for the coming year, but the year thereafter as well. It will be roughly about 3 to 3.2 million USD a year.

Sanjay Parekh: Two more questions. One is broadly on the profitability – it's okay if we have the Rs. 14.4 crores one-off, but broadly when we are designing specks to build, you will appreciate that our overall profit is lower. So maybe when you project a margin for a project, there are gaps for sure. So if we can have some more predictability in the process of planning those projects for margins, wherein those turn out to be real, then you will be able to predict and even guide us and it will help. Because that will have less of these one-off elements which are there due to one reason in one quarter or other reasons in the second quarter. So that is just a broad suggestion. Secondly and a related part is, I just understand in the Latam deal, because we had given upfront payment, broadly the margins there are higher. Now, that would mean that the margins in the other parts are far lower, broadly as I understand. That means in those areas i.e. non-India and non-Latam revenues, there is huge scope for increase in margins. Because certainly there are some areas where there is scope for increase in margins. So would we consider that each of the areas should independently be profitable and hence the company would get back to profitability?

Mouli Raman: Sanjay, thanks for the first suggestion. On the second one, yes, we are looking at each of our businesses and whether they are in line with the profitability expectations. And if not, we are taking all the necessary actions. Hopefully, over the next few months, we will keep you updated on the progress on those fronts.

Sanjay Parekh: Thank you. Last two questions. One is, we paid upfront mainly in the Latam deal and over the last few years, that is shown as Marketing Development Rights. There are a lot of precedents, like Infosys, they gave in GE account just because it was not profitable. My only point is, in our matrix, whenever the contract comes for renewal in the next two-three years, certainly, an evaluation should be done - whether we should pay initial amount the way we give for OLI. And the only thing is that – you have the best results, but whether and to what extent those initial marketing development rights are justified when the contract comes for renewal – I am just keeping it open to you that you should consider. The last point is on the Indian project. If you can guide me what we are doing in Bihar? What sort of scalability it will have? What sort of resources you require? And the last part is, there is a perception that working capital gets blocked in a big way in all government projects. So what are we doing to ensure that that doesn't happen for us?

Mouli Raman: In this case, Sanjay we already have an infrastructure across the country. So what we have done is open up the infrastructure and provide applications which can be used by others. So in this case, we are working closely with BBC World Trust who, in turn, are getting funds from Bill Gates Foundation. We provide the infrastructure, help them in applications and help them in ensuring the maximum usage of these applications by the users. And these are primarily targeted at two user segments. One is field-level workers, who are in touch with expecting mothers so that they can take precautions. So it is to aid them in their job. The other one is the expecting mothers directly, so these are the two services that we run on this. So that way, there is no additional significant additional investment for this project. That is one.

The second one is that, as far as we are concerned, BBC signs the deals with the states. We don't sign the deal directly with the states. Our customer is BBC World Trust. So that way, we don't have any issue in terms of payment.

Sanjay Parekh: So what is the potential this would have?

Mouli Raman: It is based on state to state. Sanjay, at this point in time, I would not say the amount explicitly because it's based on the states, when we go live etc.

Sanjay Parekh: Best wishes. Best of luck to the whole team.

Mouli Raman: Thanks Sanjay.

Moderator: We have the next question from Mr. Gaurav from Unilazer. Your line is unmuted, you may go ahead and ask your question, sir.

Gaurav Maheshwari: Hi. I just wanted to understand the cash side. We saw Rs. 100 crores approximately getting increased on the Receivables side and we saw the balance with statutory authorities increasing by another Rs. 18 crores. This quarter, we see Receivables decreasing by another Rs. 48 crores. How much more money, do you think, could be released out of it? Even if you can give a broad range, that should be good.

Rajesh Kunnath: As far as our assessment of billed and unbilled Receivables goes, as of 31st December, Rs. 10 to 15 crores of Receivables are still lying overdue in some pockets which should get released in this quarter. That's our sense, based on an assessment of the Receivables as of 31st December.

Gaurav Maheshwari: Then do you say that our overall Receivables days should go up from the levels that we have?

Rajesh Kunnath: We were at 177 days and have come down to 137 days. Our effort is to try and bring it down to about 125 days.

Gaurav Maheshwari: Okay, and on the balance with statutory authorities, what is the outstanding right now?

Rajesh Kunnath: The two major amounts that are receivable or which we expect to collect in this quarter is the VAT refund of Rs. 14.62 crores, some VAT adjustments in Latam to the tune of about Rs. 7 crores and some amount of VAT adjustments in Spain to the extent of about Rs. 13 crores. That's the level of VAT adjustments that we are targeting to square up in Q4.

Gaurav Maheshwari: So Rs. 34 crores plus another Rs. 20 crores of Receivables should be released in this quarter?

Rajesh Kunnath: That's the effort. Yes.

Gaurav Maheshwari: Okay, so approximately Rs. 50 crores could be released out of the money that was blocked as of now? And going ahead, you are saying that Receivables should be somewhere around 125 days?

Rajesh Kunnath: Yes. But VAT refunds are the function of how the governments in each of these countries pay these monies in time. So that is a continuing effort of ours.

Gaurav Maheshwari: Okay, what is the cash that is restricted for repatriation as of now?

Rajesh Kunnath: We have cash lying in three pockets – Venezuela, Argentina and Egypt. Bangladesh's repatriation has been resolved. And the effort is to address Egypt in this quarter.

Gaurav Maheshwari: And the amount?

Rajesh Kunnath: The amount lying in Egypt is Rs. 26.3 crores. We are trying if we can get in some bit of that repatriated based on ongoing efforts i.e. our interaction with the Central Bank there. We are also trying to influence them to classify our services as a priority sector.

Gaurav Maheshwari: Okay.

Rajesh Kunnath: Venezuela and Argentina are unlikely to happen in this quarter. They will get pushed to the next quarter.

Gaurav Maheshwari: And what is the amount there?

Rajesh Kunnath: Venezuela and Argentina put together is about Rs. 25 crores.

Gaurav Maheshwari: Okay, got it. So there's a huge chunk of cash that could be released in the next one quarter.

Rajesh Kunnath: Yes.

Gaurav Maheshwari: My next question is what could be the revenue loss because of the Latam issue that has happened and would the margins be impacted going ahead because your revenue share has come down?

Rajesh Kunnath: What was the first question, Gaurav?

Gaurav Maheshwari: Moving to your slide three whereby you've mentioned that the Latam revenues were impacted by technical issues during the first half of Q3. So what is the impact because of that issue on the overall revenues?

Rajesh Kunnath: Yes, for the last four to five quarters, before this quarter, we have been recording a quarter-on-quarter revenue growth rate growth of about 7 to 8%. We expect that revenue growth quarter-on-quarter to only be 3 to 4%. The q-on-q revenue growths will halve from 7-8% to 3-4%. That's our expectation.

Gaurav Maheshwari: Okay, and how is it going to impact the margin in that case?

Rajesh Kunnath: We don't see a direct impact on the margin because, as Mouli had explained, it's a function of the increase in operator top line as well. So as long as the operator top line keeps increasing – and that's the reason why our revenue shares have declined, we should see a corresponding flow-through to the bottom line as well. We really don't see a significant impact in that sense from a bottom line standpoint.

Gaurav Maheshwari: Okay, my next question pertains to OLI. So for OLI, you are saying that the EBITDA would break-even by end of this financial year. If I understand what you had said, do we expect at least Rs. 6.6 crores of EBITDA in the Q4? And then going ahead, the targets that you had given at the time of acquisition, do you stand by those numbers?

Rajesh Kunnath: See, we can't give out specific numbers on how the next few quarters will play out. But what Mouli had clarified was that we are targeting an EBITDA break-even in the next year, not in the coming quarter.

Gaurav Maheshwari: So in FY15 is what you mean?

Rajesh Kunnath: Exactly.

Gaurav Maheshwari: Okay, and the other numbers of 2.5 million USD, 3 to 4 and 7 to 9 in the respective years, those stand as they are?

Rajesh Kunnath: Pardon?

Gaurav Maheshwari: You gave these numbers when you acquired this entity. It will take you to 2.5 million USD in the first year, 3 to 4 million USD in the second year.

Mouli Raman: Yes. As I said, basically, there have been some changes in the revenue mix since we took over, so we are focussing a lot on ensuring that we focus more on the margins rather than on the revenues which are not generating as much margins. So that way, over the next three months or so, we will get back to you with the revised business plans which will reflect these changes.

Gaurav Maheshwari: Okay, but as of now, what is the sustainable run-rate? Can we take this quarter as a benchmark, as a sustainable run-rate?

Mouli Raman: That you can. Yes.

Gaurav Maheshwari: Okay, one last question is basically on the other products i.e. football and health that you have brought in. So can you just throw some light on what exactly are you doing in the football business? Because you also mentioned you are trying to move the focus and diversify in terms of getting away from RBT as well. So is it as a part of that effort?

Mouli Raman: Yes, you are bang on it. So it is part of our strategy of de-risking RBT. As I said, this is a product that we had launched a few quarters back. We had a product wherein the user could subscribe to news and score alerts and so on. It was not seeing too much traction. Subsequently after doing a lot of research, we realized that people follow clubs and not football. Hence what we have done is we've come out with a comprehensive product across multiple channels i.e. SMS, voice and WAP. We have made it club-centric. Basically, people subscribe to the clubs and we send score alerts, information about the clubs and their favourite stars and so on and so forth. So, that way, we made everything club-centric and across all channels. And that's what has resulted in more number of users using it and we are happy with the growth that we are seeing.

Gaurav Maheshwari: Any more such products that are in the pipeline?

Mouli Raman: Yes, we are looking at more and more products and we will keep you posted on this.

Gaurav Maheshwari: Thanks. Also, thanks for considering the request for buyback and the dividend.

Mouli Raman: Thanks a lot. So one last question, please.

Moderator: Thank you, Mr. Gaurav. Yes sir, we have the last question from Mr. Nikhil Pahwa from MediaNama. Your line is unmuted, you may go ahead and ask your question, please.

Nikhil Pahwa: Hi. Mouli, I wanted to get a sense of the competitive activity ever since the TRAI guidelines have come into force. Are you seeing the competitors reducing rates in order to keep on track or are you seeing companies shut down in the space? And how does that place you in the context of the Indian mobile VAS space?

Sanjay Bhambri: Nikhil, this is Sanjay this side. You had a question which had two-three sub-questions. So I will try and answer all of them. First one was what the aftermath of TRAI guidelines was. As you have seen the results in the last quarter, we have kind of seen stability in September. If you see in this quarter, we have shown that we've not gone down and there is stability in our revenues and more predictability, which is shown there i.e. 3.2% q-o-q on India business, number one. Number two, your question was that are we seeing competitors giving irrational quotes for maintaining the business. Nikhil, that's part and parcel of our business, as you would understand. That's normal business which we need to deal with.

Your third part was is there any consolidation. Is that what you said?

Nikhil Pahwa: Yes. I was just curious about what's scenario now after TRAI guidelines have come in because we saw in case of the SMS guidelines, that many big players had to shut down and there was consolidation in that space. So just curious about what's happening in the Indian space.

Sanjay Bhambri: In this space also, what's happening is, as you would also have seen, operators would want to have a comparatively fewer people to engage with because the overhead cost of running with multiple partners will become challenging. And there are some early signs of people wanting to have fewer partners to work with which is playing out in the market. And this will continue, it's just the start, I would say.

Mouli Raman: Yes, they want to work with partners who are able to invest in products, consumer understanding and so on. So that way, we have definitely seen consolidation in the market.

Nikhil Pahwa: So in that context, how do operators like Vodafone opening up their API to allow anyone to come on board and provide services that impact you? Airtel is also planning to do this in the next few months.

Mouli Raman: From our standpoint, we are playing on two fronts. One is that we are continuing to provide operator-branded services to customers, if they are interested. And we are continuing to bid for new opportunities on the operator-branded services. When we are opening up the platform, we are playing on that too. We are in the process of launching some initiatives which are going to leverage on the open platform created by the operators.

Nikhil Pahwa: Okay, great. Thanks. Looking forward to hearing about those. Thank you. All the best.

Mouli Raman: Thanks a lot, Nikhil. Thanks a lot everyone and thanks for being here and looking forward to the next call. Bye.

Moderator: Thank you so much, sir. Thank you everyone for joining us. With this, we conclude the conference for today. Wish you all a great day ahead.

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